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The people's money

New York

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The question, What is money? may seem as puzzling as Pilate's famous question, "What is truth?" but the puzzle in both cases is about words, not things. Invert the questions and apply them to some actual case. Is a certain thing true? Is a certain thing money? Straightway the puzzle vanishes and we know how to seek out answers. Truth is established by evidence; money is recognized by its ability to perform certain functions. Will it buy things, or hire persons or property, or pay debts? If it will do all these things exactly as they are done by what is undoubtedly money, then the coin or note in question **is** *money. The community may not be wise in accepting certain things as money and becoming dependent upon them, but that is a very different matter.*

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THE PEOPLE'S MONEY.*

W. L. TRENHOLM.

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THE PEOPLE'S MONEY.

No apology is necessary for the attempt to condense for general distribution Mr. Trenholm's thorough work, which is not merely the latest of its kind, but has been made even more timely by the events of the last year than it was at the date of its publication.

I.—Industry, Commerce, Finance, and the People.

This is essentially an industrial age, and in no country of the world is industry more universal or more varied than it is in the United States. Here nearly everybody is either an industrial worker, with brain or sinew, or is maintained by some such worker.

So many million industrial workers could not be employed profitably and constantly were it not for what Adam Smith termed "the division of labor," but what may be termed, more accurately, perhaps, in our day, "the specialization of employments." It is because the employments of modern industry have become varied and specialized that each worker is able to find continuous occupation in producing something or doing something beyond what is adapted to his own use or needs.

Communities industrially organized as ours is, on the principle of the specialization of employments, consist almost wholly of individuals who are dependent from day to day upon trade and commerce to carry on that ceaseless interchange by which alone each converts what he has, but does not want, into what he wants, but lacks. Trade and commerce effect the interchange of industrial products and services by the use of money, or its substitute, credit.

From the commercial point of view money is a receipt for value and an order for value, both in one. Commerce deals wholly in services and commodities, and it employs money or credit simply as the medium or vehicle by means of which these values are exchanged one for another. Finance, on the other hand, deals in money and credit as values in themselves distinct from their function of representing, and so conveying, value in other things.

Between commerce and finance the only common term, into which all their relations may be resolved is value, because value is the only quality common to all the objects dealt in by commerce and finance respectively; that is to say, on the one hand, services and commodities; on the other, money and credit.

Prices form the connecting link between commerce and finance; for the price of a service or of a thing is the expression of its money equivalent at the time and place of its passing from one person to another.

Two forces are in ceaseless operation, compelling activity in both the commercial and financial worlds, and these forces are demand and supply. Commercial demand springs from the wants of mankind; commercial supply flows from the universality of productive industry. Financial demand arises out of the need for capital in productive industry and in the operations by which trade and commerce are incessantly administering supplies to demand; and financial supply is furnished by accumulated capital in the form of money or credit.

Thus finance and commerce together adjust prices to services and commodities upon a basis of comparative values; and, by means of prices, each man knows how much his own talents and energies will enable him to command in the products of the energies and talents of others. Prices are invariably expressed in money, and hence money, besides being the medium of exchange, is also the general measure of values.

It is because of its function as a measure of value, or more obviously a gauge of prices, that the money we use becomes of immense consequence to us. The little cash we ordinarily have about our persons may be in any form that passes current, because that suffices to make it a medium of exchange; but whether we handle any money at all or not, whether we ever see money or not, makes not the least difference in our absolute dependence upon whatever money is in use as the measure of values or gauge of prices at the time and place at which we live and work.

The industrial state in which we live places us all under contract to the world's commerce to deliver all we can produce, and to take in exchange all we consume, both to be measured by money. In other words, it is the dollar's worth and not the dollar itself that on the one hand we work for, and that on the other hand we enjoy in recompense for our efforts.

Every industrial worker has a right to honest money, and to be assured that his work is going to be paid for in dollars of identically the same value as the dollars he is compelled to pay out for what he consumes. So important is it that money should be permanent in value that in all civilized countries the regulation of it is one of the prerogatives of sovereignty, and history shows that there is hardly any prerogative of which the intelligent and provident exercise is so far-reaching in its effects. Under our Constitution, Congress alone possesses the power to "regulate the value of money," and this power is exercised by means of the coinage and currency laws which establish what shall be money.

History records many instances of a currency becoming depreciated, and in every instance the laboring classes, small traders, professional men, farmers, and the like, have been the chief victims. These persons constitute the bulk of every community, and they seldom have the knowledge, skill, or opportunity to protect themselves from loss from a depreciating currency; while merchants whose transactions are on a large scale, bankers and capitalists in large cities, not only possess the knowledge which enables them to detect signs of approaching depreciation, but they have also the skill and opportunity to enrich themselves under the very conditions which are ruinous to all other classes.

Reason and history alike prove conclusively that money liable to depreciation is bad money for the people at large. The longer it circulates at full value the worse and more wide-spread will be the evils manifesting themselves as soon as its defects are revealed, and sooner or later a defective currency will surely be detected and become depreciated.

II.—Cash and Credit.

Everybody is familiar with the terms "Cash and Credit," as ordinarily used and understood. In cash transactions delivery and payment are simultaneous, while in credit transactions payment is more or less deferred. Accepting this distinction for the present, let each reader reckon up how much in coins, bills and notes, *i. e.*, actual money, passes out of or into his hands in connection with his business, his investments and his household and personal expenditures; then let him compute what amounts are represented by checks, collections or payments by others, offsets in accounts, etc., and he will be surprised to find how small a proportion the former amount bears to the latter.

If anyone, after making these computations, will compare results with two other persons, one whose aggregate receipts and expenditures are greater, and another in whose case the amounts are less than in his, he will find that the more a man receives and pays the smaller is the percentage of actual money handled by him. The immense transactions in stocks, exchange and merchandise at New York, London and other great centres, are all settled by checks, and these checks are settled again through clearing-houses, so that very little money passes even in the final adjustment of balances.

From these considerations, and others of a like nature, it is apparent that in every community the poorer classes handle more actual money than the richer classes, a fact not generally recognized, because we are accustomed to think and speak of money being owned, paid and received in a great many cases in which no money at all is either possessed or handled.

If your bank account shows a balance in your favor you say you have so much money in bank, while in truth you have no money in bank. The moment the teller receives your deposit and enters its amount in your pass-book, that moment the *money* you have handed him ceases to be yours and becomes the money of the bank.

This entry in the pass-book represents, as due from the bank, a sum of money equal to that deposited, not the same money, but its equivalent, and this sum may be fitly denominated "money at credit."

Although money at credit is now generally called "cash," still, strictly speaking, the term "cash" is applicable only to money, and all transactions rest on credit, except those balanced by a payment in cash at the moment the transaction is made. It is important to observe this distinction, for most readers will be astonished to find how immense is the preponderance, both in numbers and amount, of credit over cash transactions in every community, and how greatly the use of credit economizes the use of money.

It will also surprise many to discover that as a general thing those who give credit are more numerous than those who receive it, and that the aggregate wealth of all the creditors in a community is generally less than that of all the debtors.

Every tradesman who charges goods to his customers is their creditor for the amount charged, and they are his debtors. Every person working for wages or salary, who is not paid in advance, gives his employer credit, and his employer is debtor, for the amount of compensation earned up to the moment of payment.

Every depositor in a bank, savings or otherwise, is a creditor of that institution, and every banknote is evidence of debt due by the bank to the holder of the note.

Wealth is the basis of credit, and the richer the man the more he is able to borrow.

It is evident, therefore, that there is a wide-spread popular error as to which are the creditor and which are the debtor classes of the community, an error hurtful to the masses chiefly, because it deceives them as to the extent of their interest in the monetary system of the country.

A correct understanding of facts leads to these conclusions:

1st. Since money and money at-credit are habitually regarded as identical, and are used indiscriminately in cash settlements, the theory of a *per capita* supply of currency lacks the foundation usually assumed to underlie it.

2d. Credit represents money-value, not actual cash in hand, nor money-at-credit; and its use enormously extends the sphere of trade and commerce.

3d. Credit economizes the use of money by affording time for the same coins, notes, etc., to go about from hand to hand, from bank to bank, and even from city to city, settling successively an immense number of accounts; it also obviates the use of money altogether in the numberless cases in which credits are offset and balanced, one against the other.

4th. Credit accomplishes all this through the instrumentality of bookkeeping, checks, drafts, bills of exchange, banks of deposit, clearing-houses and other similar appliances.

5th. These appliances (the banks, etc.) bring the use of credit within reach not only of large commercial and financial operators, but of most people in easy circumstances throughout the United States, thus leaving the bulk of the actual money in the country for the exclusive use of those who are too poor or too little known to obtain or to utilize credit.

The farmers are, in one sense, the great creditor class. The crop and the stock are debtors to the farmer not only for the capital invested, but also for the value of all labor bestowed upon them by the farmer and his family. The farmers, therefore, are vitally interested in our money laws, for there is a long time between sowing and reaping, and the farmer needs to collect from the produce of his fields and flocks and herds as good money as he puts into these investments.

III.—MONEY.

The question: What is money? may seem as puzzling as Pilate's famous question: "What is truth?" but the puzzle in both cases is about words, not things. Invert the questions and apply them to some actual case. Is a certain thing true? Is a certain thing money? Straightway the puzzle vanishes and we know how to seek out answers. Truth is established by evidence; money is recognized by its ability to perform certain functions. Will it buy things, or hire persons or property, or pay debts? If it will do all these things exactly as they are done by what is undoubtedly money, then the coin or note in question *is* money. The community may not be wise in accepting certain things as money and becoming dependent upon them, but that is a very different matter. We are not yet considering what the material and form of money ought to be.

Let us next inquire: What is the function or office of money?

However far the collection and comparison of facts may be carried, all the inferences from them will be found to coincide in establishing the *primary* functions of money to be these:

1st. To pass from one person to another in exchange for property or in recompense for labor or services.

2d. To measure the value of whatever is obtainable by purchase, hire or other form of money payment.*

These two functions of money characterize it in every land, and have always characterized it. When Abraham offered to buy Ephron's field he proposed to "pay the full money it is worth," and when he took possession of his purchase he paid in "money current with the merchant."

Whenever money passes in exchange for property, services, etc., its value is presumed to be equal to that of the thing for which it is exchanged; hence the amount of money paid—the price—becomes the expression of the value of that thing. In this respect a dollar is as absolutely a measure of value as an inch is a measure of length, or as a pound is a measure of weight. In many cases, however, values are estimated and expressed in money terms when no money is present, and

some persons have found a difficulty in understanding how these can be accepted as instances of the measurement of value by money.

Such difficulty will disappear when it is considered that from the constant use of any standard in actual measurements we acquire more or less skill in estimating similar measurements without applying our standard, and since money is by far the most frequently used of all standards of measurement, it is quite natural that there should be fixed in our minds a value-scale marked off in dollars and fractions of a dollar sufficiently accurate to serve ordinary purposes. In these cases, therefore, while we may not actually measure with money all the values we are dealing in, our estimate and acceptance of these values proceeds wholly from belief in the accuracy of our mental value-scale, and accuracy in this case means, of course, conformity with actual money values. The fact is that money performs its function of measuring values chiefly through the medium of computation.

The weight of the earth has been ascertained, and that of some of the planets; yet no balance could hold them. In like manner one may accurately estimate values and express them in dollars, even though he may never have had dollars enough to exchange for even a fraction of such values.

In various parts of the world money is of different substances and forms; but what gives to every form of money all the force it has, what can alone confer upon anything the power to pass unquestioned from hand to hand, exchanging and measuring values, is the confidence and consent of the people among whom it circulates. Except for the settlement of contracts, the payment of debts, and the discharge of public dues, the power of the government to prescribe a currency is absolutely limited by the acquiescence of the people, and stability in the purchasing power of such currency depends from day to day upon the continuance of that acquiescence.

In countries where the laws do not prescribe any particular form of money, the money in use depends for its force entirely upon conventional recognition, and this is always found sufficient.

To facilitate interchange of values and to measure such values may be regarded as the natural functions of money, but in most civilized countries it has another function, which is artificial and established by law, viz., that of a legal tender in payment of taxes and in discharge of debt. Debt is a product of civilization; it can arise only where credit exists. Taxation is also peculiar to civilization; it is the civilized and orderly form of levying contributions for the support of the State.

Since, therefore, taxes and debt exist only under conditions which presuppose an organized society and the prevalence of law, we find money invested with the functions of a legal tender only by positive enactment. As the law defines debt and enforces its payment, the law must say what is sufficient payment; as the law levies taxes and requires them to be paid in money, the law must instruct the citizen as to what the medium of payment is to be.

It is evident that popular confidence and consent are not in any degree necessary to the support of a legal-tender currency. Within its sphere of discharging debts and satisfying the demands of the government, a legal-tender currency exists by force of law alone.

Putting together the results of our inquiries up to this point, we get this definition:

Money is a conventionally recognized and generally accepted medium of exchange and measure of value; it is also, by force of law, a medium for the settlement of contracts and debts, and for the discharge of public dues.

We all know that the gold in an eagle is worth more than the silver in ten standard dollars, and much more than that in twenty half-dollars, forty quarters, etc., while bank-notes and greenbacks have but little intrinsic value; yet it is a matter of daily experience that ten dollars in one of these forms is precisely equivalent, for the ordinary purposes of money, to the same sum in any other form; that is, all our dollars are of equal money force.

It is evident, therefore, that the character of money is not conferred upon a coin by intrinsic value only, nor upon a note or bill by fully secured representative value, but coins and notes and bills become money only when invested with that character by some power competent to give them general currency in the community.

Since money alone is universally accepted in exchange for whatever is to be disposed of, everybody knows that it is with money alone that he may buy what he likes; hence he will accept only money for what he has to sell, and since the need to sell is quite as coercive as the need to buy, he who has money may command anything that is for sale. So, too, the need of being hired is quite as pressing as the need to hire; hence money commands services as well as things.

The compulsion of taxation and of debt applies almost universally, so that the industrial need of money, imperative of itself, is augmented by the pressure of taxation and by the incessant accretion of interest. So universal are the forces compelling men in all conditions of life to obtain money, that there is a universal demand for it, and he who has it possesses a wide choice as to how he shall spend it, while neither property nor commodities, services nor the creations of intellect, can procure desired objects unless first parted with for money.

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* Money has other functions, some evolved out of these, others imposed upon it by law or custom, all of which will be considered hereafter, but for the present our apprehension of the subject will be facilitated and kept clear by confining attention to what is simple and familiar.

IV.—Natural Basis of Money.

As civilization has progressed money has become more definite in form and each form more precise and constant in value. Numerous substances have served as money at different times and in different places, which shows that the need of money was felt and that efforts were made to supply that need before the qualities of any particular substance, such as gold or silver, suggested the idea of that substance being made into money.

The idea which thus found expression was begotten of the need of having a medium of exchange, something that would be generally valued alike by everybody, and the first use of money must have been to facilitate barter, because barter was the only method of exchange or trade known, or even practicable, before money came into general use.

Money was probably at the very first used only as a make-weight in bartering and trading; the "boot," as we call it now. It may be imagined that when bartering and "trading" became close, some article of general acceptability was added to the less valuable of the two things under exchange, so as to equalize the values received by the parties to the barter. Naturally the best substance for this would be one in general use and easily divisible without loss of value, and also of rare occurrence as a natural product; hence salt, an article of universal consumption; iron, the material of weapons; copper, the material of armor; silver, the material of household utensils, of personal ornament, and of religious vessels; gold, the material of royal and female adornment, came into use as make-weights or "boot."

It was probably a long time before this primitive stage was passed, but at length men must have perceived that if money could stand for a part of the value of a thing, it could stand for its whole value, and thus money in one or the other of its primitive forms came to be a measure of value.

The activity of traffic, increasing from century to century, afforded more frequent opportunities and more numerous inducements to employ money advantageously until, amid the countless industries and dealings of our day, it moves in a million circuits, of which the axes traverse the plane of society in every direction, and cross each other at a thousand points. During the period of this development, from the point at which money was first thrown in as "boot" to close a "trade," down to the point at which we now find it, it gradually came also to be regarded as a measure of value, and everywhere history shows a progression of some sort as to the substance used for money considered as a measure of value.

In every country, and in every race, there was a similar progression, beginning with rude materials of low intrinsic value, and advancing toward finer materials of higher intrinsic value.

There must, therefore, be a natural law governing this progression; a natural law which tends always to establish as the standard of value the material of highest intrinsic value available at the time. If there is such a natural law, it must be still operative, and to its effect we may attribute the steadfast movement of modern nations toward silver as the general standard of value, when copper ceased to be adequate, and now toward gold, when silver is no longer adequate.

V.—Industrial Basis of Money.

Without money trade could never have expanded beyond the limits of barter; without trade, industry could never have become specialized; that which has been called (clumsily enough) the division of labor, could never have taken place. Industry, therefore, depends upon money as a medium for the exchange of its diverse products, and at the present day, in civilized countries, money is assisted in this office by credit in various forms. The use of money as a medium of exchange of the products of industry brings into play also its functions as a measure of value. Every transaction involves an estimation and a comparison of values.

Value is a relation, and more than that, it is a compound relation. It is the relation between a human desire and the object of that desire on the one hand, and on the other, it is a relation between that object and the desire of its possessor with respect to it.

At every point throughout the industrial world the opposing desires and opinions of buyers and sellers, the conflict of interests and purposes as to the disposition and value of labor, services and commodities, create an incessant contention, out of which, and by means of which, definite results as to value are obtained, and these results are expressed under the designation of price.

Prices are always expressed in money, and values are estimated in money, hence we are accustomed to regard price and value as identical, but they are not so, for price is only the exponent of *estimated value.*

Since money is ordinarily the only measure of value generally accessible, since trade depends at every turn upon measuring values in order to compare them, and since a comparison of values is essential to the exchange of the products of industry, industry itself, and all who live by industry, have a vital interest in money, regarded as a measure of value. They depend upon it absolutely.

Now, whatever is depended upon as a measure of anything, must itself be constant and unchanging in respect to the quality which it is to measure. A measure of length must not be subject to linear contraction and expansion; a measure of weight must not be subject to changes in its own weight; a measure of time must be chronometrically accurate; a measure of force must never show variable results under identical conditions; hence money, as a measure of value, should itself be free from variation in value.

VI.—Law as a Basis of Money.

In communities where society has not yet reached a degree of development which brings it under settled government and written law, local conditions and ideas bring about, in process of time, a general consensus of the people as to the form and value of the money best suited to their use, and what is thus evolved is afterward maintained by custom; but when government is perfected, these matters are more fully provided for by law.

One of the duties thus devolved upon modern government is that of selecting the material of money, prescribing its forms, and fixing its value, and it is in this way, and under these conditions that law is a basis of our money.

Although it may at first seem superfluous for the law to concern itself with what existed before there were law-governed communities, and what would continue to exist if there were neither parliaments nor congresses, mints nor public treasuries, it is not so. Roads, bridges, and ferries have been constructed and used before there were laws providing for their establishment and maintenance, but civilization requires that in populous communities these should be provided and regulated by the public authority. So it is with money. That which suffices for barbarous nations would not satisfy those that are civilized, and in our day the uses of money are much more important and diversified than they have ever been before.

It is obvious that as respects taxes and debts there must be some medium of payment prescribed by the law that imposes the one and sanctions the other, for since the law undertakes to enforce payment in these cases the law alone can fix what shall constitute such payment. But, one may ask, why should the law presume to say what I must take in payment for my labor, my talents, my property, or my land? Why should I not be free to dispose of these as I like, as is done where only natural law prevails? The answer to this is, that every one is free to do so, but since ordinarily none exercise that freedom because it is more convenient to accept the money the Government provides, there is no stock of any other money in the community.

In a later chapter we shall see that when men do not like the money in use, when they do not trust it, that very opinion inflicts loss upon them by causing the money to depreciate on their hands.

Since, therefore, the people individually, or even by voluntary combination in large numbers, cannot sustain a currency not universally trusted, it is evident that in order to command general confidence the value of the money in use must be vouched for by some authority universally known and respected, and in modern nations the government is such an authority, and it vouches for the money by subjecting its coinage or manufacture to the regulation of law.

The framers of the Constitution vested in Congress "the power to coin money, regulate the value thereof, and of foreign coins, and fix the standard of weights and measures."

Another clause provides that "no State shall coin money, emit bills of credit, or make anything but gold and silver coins a tender in payment of debts."

These two clauses of the Constitution vest in the United States Government exclusive control over the money of the people. Congress has placed a very wide construction upon this grant of power, hence it behooves the people to know what limitations are imposed upon its exercise by the natural laws on which the constitutional grant is founded, and by which, therefore, it should be interpreted.

This inquiry is momentous in practical importance, because unless Congress exercises its powers in conformity with natural laws, there will inevitably arise a state of things contravening those laws, and such a situation invariably leads to disaster.

The whole function of government, with respect to money, is limited, first, to establishing by law what shall constitute the general medium of exchange, measure of value, and legal tender for debt and public dues, and, secondly, to protecting this money from variations in value one way or the other.

Sentiment, prejudices, ignorance, vague and ill-digested theories, experiments and shifting expedients, are pernicious in their effects everywhere and always, but when embodied in monetary laws they work evils hard to detect and harder still to cure; they cast a blight upon industry and sow ruin and demoralization broadcast among the people.

VII.—Confidence as a Basis of Money.

All the teachings of history, all the logic of political economy, all the facts of common experience in respect to money, concur in support of the proposition that public confidence can make anything pass as money, and, conversely, that nothing can so pass unless there is confidence in the future continuity of its efficiency as a medium of purchase and payment.

Mistaken confidence, as long it lasts, is quite as effective for this purpose as confidence sagaciously given, and a mistaken withholding or withdrawal of confidence is just as fatal as that which ensues from right reasoning.

It is the province of the law to determine the material of money, to prescribe its form or forms, and to fix its value; but the law cannot make it circulate unless the money itself enjoys the confidence of the people.

Whether any particular form of money is or is not entitled to command this confidence will depend wholly upon how the government exercises its prerogative of regulating money, for the conditions determining public confidence in respect to money arise out of natural laws, which are superior in force to statutes.

There is historical evidence to show that when these conditions are either not all originally present, or have become varied by events, still public confidence in certain forms of money may be won and preserved by the force of the government's credit. In such cases the credit of the government is substituted for the whole or or a part of that intrinsic value which constitutes the natural basis of money, and the degree of confidence thus imparted to any particular form of money depends, of course, upon the degree of the government's credit.

Now, public trust in the government includes three distinct beliefs.

1st. Belief in the good faith of the government; that is, in its purpose to fulfil all obligations expressed and implied in its engagements.

2d. Belief in the stability of the government; that is, that it will continue to have the power to apply the national resources to the fulfilment of its engagements. Stability, under our form of government, implies a settled purpose among the people to require all public obligations to be fulfilled, however local politics may vary.

3d. Belief in the sufficiency of the material resources of the government for fulfilling its engagements.

These three elements, therefore, constitute the substance of government credit, and when they all exist in the highest degree, that credit is generally sufficient to support a portion at least of the monetary circulation.

There is, however, something else wanting to the complete monetary efficiency of any form of money that depends wholly or partially upon government credit, and that is, its convertibility into other money that derives its value wholly from intrinsic qualities.

These being the principles underlying that public confidence which is essential to money as an effective servant of society, let us test them by the experience of our own people, and apply them to the circumstances of the present time.

The money existing in the United States during the last dozen years has been of various kinds; gold coins, silver coins, gold certificates, silver certificates, currency certificates, greenbacks, and National Bank notes, to which are now added "coin notes," issued under the act of July, 1890. Since January 1, 1879, it has all enjoyed equal confidence, that is to say, it has all circulated indiscriminately; has been equally effective in purchasing; has been of uniform, and therefore of interchangeable, value.

Before 1879, however, this was not the case; gold coin and gold certificates then were more valuable than corresponding denominations of greenbacks and National Bank notes.[*] The reason why greenbacks and National Bank notes were less

valuable than gold, before 1879, is because the credit currency did not then stand as high in popular confidence as did gold coins and the gold certificates.

When, however, the government provided for the convertibility of its paper into gold, first, by the Resumption Act, and then by actually getting the gold in hand to effect resumption, the confidence of the people in the greenbacks and National Bank notes rose to the level of their confidence in gold itself. The paper currency came to "par," as the phrase goes.

If we analyze the grounds of this confidence we shall find that it rested on the three distinct beliefs already enumerated, viz.:

1st. Belief in the good faith of the government.

2d. Belief in the stability of the government.

3d. Belief in the means of the government for fulfilling its undertaking to establish and maintain the convertibility of greenbacks into gold.

It will be profitable to follow this instructive episode in our recent monetary experience somewhat in detail.

When the greenbacks, which are the government's due bills, were depreciated, that depreciation was the sign of the government's discredit; the rate of depreciation was the measure of the degree of such discredit.

The Resumption Act, which was passed January 14, 1875, did not raise the greenbacks to par, but the accumulation of $70,000,000 of gold coin in the Treasury brought the gold premium down, and the negotiation of $50,000,000 of bonds for $50,000,000 of gold coin finally extinguished it. The credit of the government was perfected, not by the law, but by the financial operations that rendered resumption practicable.

Now, undoubtedly, the confidence of the foreign bankers who lent the greater part of this $50,000,000 rested upon their belief in the honesty and intelligence, as well as in the resources of the people of the United States.

It is true that these obligations are but little understood, and that the people of the United States, through their representatives, can break all contracts and invalidate all bonds, while no physical power on earth could coerce the payment of either the principal or interest of the national debt if Congress should refuse, or even should omit to provide for such payment.

The bonds of such a government may seem but slight security for $50,000,000 of gold coin; but the bankers who took our bonds in 1878 knew that the natural laws of finance gave them a grip upon the people of the United States more sure and more durable than could be secured by the combined fleets and armies of Europe. These natural laws compel every commercial people to sustain the national credit at any sacrifice, and under all circumstances, on peril of intolerable loss. The repudiation of those bonds would cost the people of the United States vastly more than they would gain by extinguishing the debt of $50,000,000 in that way; it would cost us not less than six times as much, while the mere attempt to repudiate, even if afterward abandoned, would cost us eventually more than $50,000,000.

Can this be doubted? Consider the effect of discrediting the government of the United States. Let the government lose its credit with the bankers, can it be retained among the people? Surely not. The $100,000,000 of gold now held as a special redemption fund will be drawn out as fast as greenbacks can be handed in through every aperture of the redemption counters of the Treasury, and then there will remain $246,000,000 of greenbacks in the hands of the people, and neither gold to redeem them with nor credit with which to get more gold. These will, of course, immediately depreciate, how much is immaterial to our immediate purpose; let us say, only ten per cent. That will take ten per cent. off the purchasing power of $380,000,000 of silver dollars, $246,000,000 of greenbacks, $150,000,000 of Treasury notes of 1890, about $200,000,000 of National Bank notes [because they are redeemable in greenbacks], making $976,000,000 of currency, on which ten per cent. is $97,600,000.

In the last report of the Comptroller of the Currency (December, 1894), deposits of all the State banks and trust companies are estimated at $1,129,000,000; savings bank deposits, $1,778,000,000; individual deposits in National Banks, $1,728,000,000; private bankers' deposits, $66,000,000. Total debt of the banks, etc., to the people, payable in lawful money, $4,701,000,000. These deposits would, of course, follow the value of the lawful money in which they are payable. On the $4,701,000,000 of deposits above shown, the loss would be $470,100,000; and the loss on currency, as above, would be $97,600,000; aggregate loss on above items resulting from ten per cent. depreciation of greenbacks, $567,700,000. Here, then, is the sword held over us. Here is the power that compels us to preserve the credit of our government.

Our circulation now includes: Greenbacks about $346,000,000; National Bank notes, $200,000,000; silver dollars and silver and coin certificates outstanding, say $495,000,000; making the total of paper and silver held up to a parity of value with gold by the credit of the government, $1,041,000,000.

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[*] There were no silver dollars at that time and the subsidiary coin being of low intrinsic value and used only for change, is not taken note of here or elsewhere in this treatise.

The entire value of the greenbacks and National Bank notes depends upon credit, while the silver dollars and silver certificates derive more than a fourth of their value from credit. Impair that credit, and for every one per cent. of currency depreciation resulting from its impairment, you will inflict upon the people who are holding the currency, a loss of $10,410,000; and upon depositors in banks, etc., $47,010,000; here is a loss, for every one per cent. depreciation of $57,420,000. If the currency drops to the intrinsic value of 412½ grains of silver to the dollar, now less than 50 cents, that will be a loss of over fifty per cent., or more than $2,870,000,000, which is more than four times the entire volume of the national bonded debt still unpaid

Who can doubt that this result will follow upon any act of our government which lets go the gold standard? It cannot be denied that we must have a solid metallic basis of value somewhere for our currency. What is it to be? According to existing laws it must be coins containing either 25.8 grains of gold, or else 412.5 grains of silver 900 fine. There is no standard but these two by which to measure ten dollars in this country, and as these two standards differ in real value, the time will come when we must cleave to the one and forsake the other.

Admit, for the sake of argument merely, that the government can elect to make the silver dollar the standard; dare we encounter the consequences? At present, the standard is gold—gold by force of the statute of February 12, 1873, establishing the dollar of 25.8 grains of gold, nine-tenths fine, as the monetary unit; gold by contract under the Resumption Act of 1875; gold according to the real worth of the $4,700,000,000 of good money lent by the people to the banks, in the form of deposits, and now owed by the banks to the people in gold; gold by the common understanding and business dealings of the people during the last twenty years. State, municipal, railroad and other corporation bonds, private bonds, notes and contracts, salaries, wages, rents and taxes, are all on a gold basis, placed there in consequence of the popular faith in these solemn enactments by Congress, sanctioned by public acquiescence.

Let Congress say, now, that the standard is the silver dollar, and straightway a loss of $2,350,000,000 will fall upon those among the people of the United States who have no gold, no foreign exchange, no government bonds, no bank stock.

The people, the masses, who have deposits in the various banks, and who hold the money provided by the government, will have to bear the entire loss. What boots it that a large part of this fearful loss will be offset by gains to those [banks and bankers] who now owe this money, and who have been wise enough or fortunate enough to invest it abroad, or to hold it here in gold, or in securities convertible into gold?

In the case supposed the poor will all be made poorer, the great bulk of the people who are in moderate circumstances will bear the chief loss, while some few among the rich may possibly be made richer. If these things are clearly apprehended, either in Congress or among the people, will any voice be raised to disturb the public confidence now enjoyed by our money? No patriot, no statesman could wish to disturb it; no demagogue or fanatic would dare to do so.

VIII.—DEFINITENESS AND STABILITY OF VALUE THE ESSENTIAL QUALITIES OF MONEY.

What quality must money possess in order to conform to natural law, to serve the needs of industry, to command the confidence by which alone it can fulfil its functions as a medium of exchange and a measure of value, and hence to merit the sanction of civil law?

The answer is, the qualities essentially requisite for money are, definiteness and stability of value.

In the payment of wages, and in all small transactions, the current money of the time and place is used to measure values, just as in the retail trade the yardstick is used to measure cloth, pound weights to measure sugar, or pint cups to measure molasses. But beyond the retail trade goods are passed from hand to hand among wholesale dealers by the package or bale, the barrel or hogshead, and are paid for by checks or drafts.*

Now the packages, bales, barrels, hogsheads, and cargoes are aggregations of quantity and weight, based upon primary and fixed units of weight and measurement; in like manner amounts of dollars or pounds sterling, specified in checks, drafts, and bills of exchange, are aggregations of money based upon a primary and fixed unit of value.

Without a perfect understanding and agreement between buyer and seller as to the actual weight of an ounce, and the actual valne of a dollar, these transactions could never occur; merchants demand this certainty in all their dealings, and they are generally able as well as careful to secure it. If the man who is about paying for a cargo by the thousand tons has any doubt as to what constitutes an ounce in the estimation of the person who has weighed the cargo at the port of shipment, he will not make the payment until he has verified the weight by his own scales; but if there is no doubt upon that point, he pays by the weight specified in the bills of lading.

So if the man to whom payment for this cargo is being made in the form of check or draft, has no doubt as to the real value, *i. e.*, the kind of dollars, represented by these paper orders for money, he accepts them as if they were money; but if he has doubts, he requires to be assured upon this point before parting with the bills of lading, which are paper orders for his property. The quantity or weight specified in the bills of lading being fixed, he very reasonably demands equal certitude as to the exact value he is to get in exchange.

It is absolutely necessary to have a unit of value, not only for measuring values, but for expressing their measurement accurately, because unless the several values of different objects can be thus ascertained by a common unit or value-measure, and unless they can be expressed in terms common to all, these values cannot be compared with the requisite degree of exactness for the purposes of trade and commerce. Without the means for such comparison industry would be paralyzed.

Contracts to pay or to receive money at a future time would never be entered into if the actual value to be paid or received at that time cannot be relied upon by both parties. The very existence of credit is therefore dependent upon the certainty of the monetary unit. The establishment of a monetary unit or fixed standard of value is, therefore, the highest duty of governments, and the more numerous and diverse the forms of money in use, the more imperative does this duty become.

There is, however, another element required to make any particular kind of money really good, namely, invariability in its purchasing power, stability of value.

We are so accustomed to measure values and to express all variations of value by money, that it requires a little effort to conceive of money itself as varying in value, but such a conception will be by no means difficult if regard is had to the distinction between price and value which has been already pointed out.

When we compare the value of any commodity with that of money, we express the result of the comparison in money value, that is, price. So we say, "This watch is worth $100," "The price is $100." Yet we can conceive of a man who has $100 saying, "The price of this $100 is such and such a watch." The jeweler buys $100 with his watch when the customer buys the watch with $100.

Variations of the relation expressed by price may, of course, be caused by a change in the value of the article, or by a change in the value of the money, or by changes in both values.

This point being made clear, it is evident that good money should not only stand the test of passing current, but it should also be definite in value and possess the further quality of stability of value. The possession of this latter quality is essential to good money, because we measure all other values by money.

Since stability of value is an essential property of good money, the question arises, how is this obtained? And then there is another question behind this, namely, how are the people to distinguish between money that possesses this quality and money that lacks it? Stability of value is assured, when, as has been the case in England for nearly half a century, only one metal is used for money, or when, as has been the case in the United States since January, 1879, all the different kinds of money in use are maintained constantly at a parity of value with the monetary unit.

The practical test of stability in the value of the money in use is general stability in prices. There is no other test, nor can any better be conceived.

IX.—THE MONETARY UNIT.

It has been ascertained, by the experience of past generations, that even two kinds of money cannot possibly continue circulating side by side when once they are recognized as differing in purchasing power, *i. e.*, in money force, because the moment any inequality of value among the ingredients of a mixed currency is discovered or even suspected to exist, that moment everybody hoards the more valuable and hurries to pass off the less valuable of those ingredients; so that in a short time the former are sifted out from the circulation and disappear, while only the least valuable ingredient of all remains accessible to the people; thus debasing the money of the community and correspondingly affecting all measurements of values, *i. e.*, raising the prices of everything.

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* Bonds and stocks are paid for in the same way.

This natural law was first pointed out by Sir Thomas Gresham, three hundred years ago, and by reference to history it is found to have asserted itself, both before his time and since, whenever and wherever two or more kinds of money, circulating together, have been perceived, or even suspected, to have lost, or to be likely to lose, their equipoise in value. So universal and inevitable is the operation of this law that people of all lands and all tongues have defied edicts, statutes, and even military force; they have put aside old prejudices and disregarded usage, tradition, patriotism, public spirit, even what appears to be their own immediate welfare and prosperity, in the irresistible impulse to pursue a course of individual conduct which when practised by all inevitably results in restricting the money circulating in the community to the least valuable and least desirable of its elements.

In such cases, of course, the sifting and hoarding is done chiefly by those who are the first to perceive the tendency toward divergence in value, and as these are generally bankers and other dealers in money, they reap whatever benefit can possibly be got out of the sifting and the hoarding, while the refuse of the circulation is put off upon laborers, artisans, farmers and other plain folk. As every mixed currency is in danger, more or less, of having the equilibrium of value among its ingredients disturbed, at some time or other, by causes beyond the control of the government and people, and of thus suffering dissolution, such currencies have been, by many writers and statesmen, altogether condemned as mischievous to the people, and the only grounds upon which they have been justified are these four: First, the convenience to the people of having several kinds of money from which to select whichever best suits each occasion; secondly, economy in the use of one or both of the precious metals; thirdly, raising the volume of the circulation above what could be maintained by using only one of these metals; fourthly, the various considerations, whatever they may be, that support the doctrines of the bimetallists.

All who, for any reason, favor our present mixed currency, must, by logical necessity, assent to the proposition that the good of the people requires that the elements composing it be preserved in harmony of value, since, because of Gresham's law, that is the sole condition upon which the integrity of the currency can be secured and the volume of the circulation maintained.

This desired object can be practically accomplished only by the establishment and maintenance of a monetary unit, or a unit of value, corresponding with the denominational unit of the money system of the community.

A monetary unit is a definite weight of a particular metal of a certain fineness, established by law, to be the actual substantive value designated by the term which is the denominational unit of the money system of the country. The denominational unit of our money system is the term *dollar;* the monetary unit, or unit of value, is 25.8 grains of gold, nine-tenths fine. It may be interesting to trace the history of this matter in the laws of the United States.

The money circulating in the colonies consisted of British, French and Spanish coins, chiefly the latter, and also of paper bills of credit emitted by the different colonial governments. In all history there is nothing so instructive, in respect to money, as the account of the various currencies that from time to time vexed the souls of the people and thwarted all industrial efforts in these enterprising and resolute communities.* Experience, therefore, impressed the Fathers of the American Union with the importance of a new departure in financial management, and hence we find that the Articles of Confederation, which stand at the threshold of our national existence, vested in Congress "the sole and exclusive right and power of regulating the alloy and value of coin struck by their own authority or by that of the respective States."

A further and more effective step in the same direction was afterward made by providing in the Constitution that "the Congress shall have power to coin money, regulate the value thereof, and of foreign coins," and that "no State shall coin money, emit bills of credit, or make anything but gold and silver coin a tender in payment of debts."

In pursuance of these wise provisions of the Constitution, Congress, by the Act of April 2d, 1792, established the dollar as the "unit of the money of account" for the whole United States, and from that day to this all our conceptions of the value of things, all our computations and contracts, have been expressed in dollars. From 1792 to 1862 legal provision was made from time to time for preserving uniformity in the conventional value of whatever different kinds of money enjoyed the recognition of the Federal Government.

After 1862 monetary affairs became greatly disordered by the war, coin disappeared from general circulation, while United States Treasury notes on one side, and Confederate States Treasury notes on the other, became, under the operation of Gresham's law, the only kind of money available to the people at large, notwithstanding that, according to the best estimate, the gold coin in the country was never less than $200,000,000. When the war ended, in 1865, the Confederate currency was worthless, and the greenbacks were so depreciated that $100 in that currency would buy only about $70 in gold coin of the United States. The National Bank notes, being redeemable in greenbacks, conformed in conventional value to that depreciated currency.

The Resumption Act, and the measures taken in pursuance of it, restored to the people substantially the money intended to be guaranteed to them by the Constitution, and the last of the series of acts fixing the value of this money, based it on a monetary unit, viz., 25.8 grains of gold, nine-tenths fine. This has remained until to-day the monetary unit of the United States, and by this all values have been measured and computed since January 1, 1879.

The importance to the people of selecting and adhering to a certain weight and fineness of one metal as the monetary unit, arises wholly out of the fact that their money is manifold in form, substance and intrinsic value. Our four kinds of money, differ in intrinsic value, and therefore they can be maintained at uniform conventional and legal value only by investing one of the two metallic coinages (gold and silver) with the character of a basis or standard of value, and by force of law conferring upon the other elements of the currency, values representative of the actual value intrinsically present in that selected to be the standard.

The Government is by no means free to select either of the two coinages as the standard, but must select that of greater intrinsic value, or else, under Gresham's law, those coins will disappear from circulation. If instead of 25.8 grains of gold 412½ grains of silver had been made the monetary unit in 1873, we should now have no gold coin at all in circulation.

The monetary unit once established becomes the standard for measuring all values expressed in money, and thus it enters into all business and financial transactions, arrangements, and contracts; hence it should be always preserved at substantially the same level of value.

The progress toward simplification and method, which begun when coins were substituted for scales and weights in the measurement of copper, silver and gold, has been continued constantly in the direction of improving the coins, perfecting their accuracy, and fortifying their permanency in respect to value, and its logical conclusion is now reached in the adoption of a monetary unit, by means of which several kinds of money, varying in intrinsic value, are co-ordinated as to legal value, and their solidarity in the currency is established and preserved.

The duty of the government, therefore, in respect to this matter, is to establish a monetary unit, and to provide against its being changed except by such universal consent as is requisite to effect a constitutional amendment.

Imagine an ordinary workshop where the foot-rules are not on the same scale; where the unit of linear measure—the inch—is not definite nor fixed, so that the inches and the feet marked on one man's rule do not correspond with the inches and the feet marked on the rule of another man engaged on a different part of the same work. Would there not be inextricable confusion and wrangling among the men, attended with spoiling of material and consequent loss and vexation to the proprietor? Would there not be necessarily a spontaneous halt in the work, and a simultaneous demand that some one of the various inches be selected as a standard, and that all rules that differed from the standard be banished, and even destroyed utterly?

Now money, as a measure of value, sustains toward the specialized and differentiated industries of this country, relations precisely like those which foot-rules sustain to the specialized and differentiated employments into which the work of a great machine-shop is distributed. An industrial people, subjected by their government to the use of an uncertain currency, are just as badly treated as would be the hands in a machine-shop who should be furnished with defective and inaccurate foot-rules, and then held accountable for material spoiled and time lost by misfits.

One step further: while the United States may be regarded as a great workshop, yet it is only a branch of the still greater workshop of the world at large.

The value-rule in use among us should, therefore, bear a definite, known, and unchangeable relation to the value-rules in use among the people with whom we trade. While it would be more convenient to have but one monetary unit for all the world, it is not necessary to do so. Different nations may still retain those they are accustomed to, but it is absolutely essential that each of these should be

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*See Money, p. 304 *et seq.* F. A. Walker, New York, 1878. Money: Its Laws and History, p. 429 *et seq.* H. V. Poore, New York, 1877. Sumner's American Currency.

immutable in real value, and that they should all be alike in material, for identity of metal can alone insure identity of intrinsic value in equal weights.

X.—Legal Tender.

The term "legal tender" is a technical expression signifying that which the law prescribes to be paid or tendered in order to discharge a debt, satisfy a judgment, fulfil a money contract, or pay taxes.

The very object, therefore, of a legal tender law must necessarily be to establish a fixed and immutable measure, or standard, by which the value repaid or returned may be compared with and made equal to the value acknowledged to have been received, and in other cases by which the value paid in satisfaction of a debt, or a judgment may be compared and equalized with the value agreed or adjudged to be payable therefor.

This being the nature and the object of all legal tender laws, reason itself requires that when such a law gives legal tender force to several kinds of money, these kinds of money must be always preserved at equal value, for if they are not so preserved the nature of the legal tender law is violated and its essential object is defeated. This is not only a requirement of reason, but it is also demanded by that spirit of justice which is the soul of law and should be the animating principle of all legislation.

Legal tender laws control the execution of contracts, and every contract embraces two or more persons, sustaining to each other complementary relations. The essence of these reciprocal relations is equality; equality of the value received at the date of the note or bond, with the value agreed to be returned at its maturity.

The whole theory of a money penalty for default of specific performance rests upon the doctrine here set forth, and this doctrine also underlies all taxation, for without fixed value in the medium of payment the taxing power can neither provide adequately for the public needs nor gauge the burden laid on the tax-payers.

Not money but money's worth, not the dollar but the dollar's worth, is the motor of industry, the propelling force behind human enterprise and endeavor. This truth is the key to the obligations of governments in respect to legal tender money; they are bound to preserve its value, its true worth. The name of the coin, the denomination of the note, is absolutely naught; the value is the essence of the matter; equality of value, not identity of substance, between the thing borrowed and the thing returned; equality of value, not specific identity, between the thing promised and the thing performed, will alone content the avidity of justice for what is right.

XI.—The Material and Form of Money.

Since the government is charged with the duty of determining what the people's money shall be, it is well to inquire what principles should govern the coinage of metals and the creation of paper currency.

Before proceeding to these inquiries, however, it is necessary to point out the difference between these two kinds of money: Coins possess intrinsic value; that is, the substance of which they are made is valuable in itself. Whether coined or not, gold, silver, and copper are valuable as metals, and their value is nearly the same all the world over. Paper money has practically no intrinsic value; its money-force depends upon law, or upon the financial credit of the government, or the credit of a bank; sometimes certificates, representing coins of gold or silver deposited in the Treasury, and redeemable in such coins, are used as money. Paper money generally expresses an obligation or a promise; it usually implies a contract or a trust, and its value, derived wholly from these, depends for its continuance upon the public confidence that the promise or obligation will be fulfilled, the trust or contract executed. Beyond the limits within which this confidence suffices to give it currency, paper money, whether in the form of Bank of England notes, greenbacks, National Bank notes, or coin certificates, loses its money function; it has no force to pay wages, or to pass from hand to hand in the ordinary course of daily traffic.

There is another very important difference between coins and paper money. The value of coins, being in their substance, is not affected by or dependent on what is stamped or imprinted upon them.

Coined metal is beyond the reach of political strife; it is free from danger by reason of disaster, panic, or war. Earthquakes, revolutions, the rise and fall of empires, have been powerless to impair by a fraction the value inhering in the coins sewed in the garments of trembling towns-people or hidden in the huts of a terrified peasantry.

Paper currency, on the other hand, is created by statute; every note has value conferred upon it solely by the stroke of the pen recording an official signature. A greenback or bank-note of $1,000 contains no more paper and ink than one for only $5; it costs no more to produce the one than the other. The money life of such currency depends wholly upon the continuous sustaining force of the law; interrupt this, and it droops depreciated; cut off this support by repealing the law or disabling the government, and the currency dies, as the lights go out when the gas is turned off. Every note that draws vitality from the law perishes with the repeal of the law, or with the downfall or bankruptcy of the government, even though it be locked in a hidden recess a thousand miles away from the seat of legislation or the theatre of revolution.

A depreciated currency, whether metallic or paper, is the sum of all monetary evils; it is worse in its effects than war or pestilence; it seeks out and ruins the most secure and the most secluded; it brings widows and orphans to penury; it corrupts the virtuous, disheartens the industrious, destroys the helpless; it breeds rapacity, pampers vice, and sets up gambling as a substitute for profitable toil.

It may be asked, How may a government secure its people against the danger of the currency becoming depreciated? The answer is: A government should never make anything lawful money but coins of metal, and paper convertible into such coins on demand of the holder.

There is no reason, however, from a financial point of view, though there may be political reasons against it, why the United States government, after establishing, under constitutional sanction, an unchangeable monetary unit, should not provide in its laws for a system of banks of issue, which may supply to the currency an element adjustable in volume, under natural laws, to the varying needs of industry.

Metallic money is certainly as old as the time of Abraham. Then it passed by weight. More than a thousand years after that coins were invented—at first these were made of brass, then of iron and copper; long afterwards silver coins were struck; gold was the last to be coined.

At each stage in the progression from the less valuable to the more valuable metals, the material of money seems to have borne a relation to the value of labor.

In primitive times money had no general sphere of circulation. Nearly all labor was performed by slaves or dependents, hence there were no wages to be paid, personal service was requited not by money but by protection, shelter and maintenance, few industries were pursued for gain and trade consisted largely of barter.

Now industry has become almost universal and is infinitely varied, each worker is master of his own earnings, so that money is indispensable to the daily life of hundreds of millions of men, women and children, and the material of money has increased in value with the rising value of the labor it measures and the increasing volume of the transactions it liquidates.

It is in this way that the world has outgrown brass, iron and copper, successively used as money; these metals are now all too low in value, in proportion to their weight and bulk, to serve the needs of industry among the more advanced nations, although copper coins are still found in circulation among peoples less advanced. Gold and silver are the metals now chiefly used as money in Europe and America. Mankind has become satisfied by experiment that silver and gold are the best metals to be used as money at the present time, and when, if ever, they become satisfied that either of them can be advantageously dispensed with for such use, that metal will cease to be used for money, and no amount of sentiment, no force of declamation, can prevent its disuse.

It is only in modern times that paper money has come into use. A sketch of its history will be found in Chapter XII; but it may be well at this point to suggest some views as to paper money generally. All paper currency, whether issued by the government or by a bank, consists of due bills only; these due bills may be simply the government outlay, or they may represent taxes to be collected, or gold or silver coins deposited in the Treasury; or they may represent value in some other form received by the government or by the banks. History teaches that it is never entirely safe for any people to entrust the keeping of all their gold and silver to treasuries and banks, while they have nothing to show for it but a paper receipt; and it is always exceedingly unsafe for the people, especially farmers, artisans, and laboring men, who are not in the way of keeping up with financial changes, to become wholly dependent upon a currency that has neither gold nor silver behind it, but which consists wholly of paper representing future taxation, or which is based solely upon the credit of a government, or of a corporation under governmental control.

If the government supplies the money it ought to take care that all of it is equally good, and equally good at all times; but this cannot be depended upon unless the people understand the difference between good money and bad, and require their representatives to possess that knowledge also, and to apply it in legislation, where alone such knowledge can be applied effectively.

Is a man's labor, or his crop, not always good value, and should they not at all times be paid for in money that has equally good value? Can a man afford to be indifferent as to whether the money he gets is always equally good? It is certain that bad money can never be so plentiful that wages paid in it will go as far when they are to be spent as wages paid in good money.

XII.—Paper Money.

From what precedes it is apparent that to the people of an industrial community it is essential that all their money should be of such material, and so rooted in natural laws, as to merit and to obtain universal confidence, both as a medium of exchange and as a measure of value. For this reason many economists insist that the law should recognize nothing as money but coins of gold, silver, or copper, because these alone possess intrinsically, and in the highest degree, the qualities which experience has shown to be characteristic of good money. It is to be considered, however, that a great volume of circulation, consisting exclusively of these metals, is a very costly appliance.

In order to appreciate the force of this objection to an exclusively metallic circulation, we need, first of all, to fully realize that every dollar of money actually present in any community belongs to some individual or institution, and that every such dollar is inert capital, void of increase and earning nothing. Whether carried in the pocket or locked in a safe, every coin and every note costs to its possessor, day by day, the loss of whatever interest or profit he might obtain by parting with it, through investing its value in some productive form, *i. e.*, in a savings bank deposit or in bonds, stocks, promissory notes, real estate, machinery, tools, animals, etc. All these and many other forms of property yield to their possessor either profit or pleasure without diminution of their value as property; but money yields nothing while it is kept. To derive pleasure or profit from money one must part with it.

Merchants, traders, and manufacturers keep as little cash on hand as possible, even though they possess large capital; while the great operators in exchange, securities and produce habitually draw their bank balances down to the lowest point they consider consistent with safety to their business, and if, at the end of any day's operations, one of these finds his balance larger than necessary, he will try to lend out the excess, even at a very low rate of interest.

So great is the burden of idle money that in many kinds of business needing the use of money for short periods of time only, it is found more economical to borrow for such periods than to hold so much money over the intervening spaces of time; thus, builders are always large borrowers, farmers invariably get advances on a maturing crop; while factors, warehousemen, and others engaged in marketing agricultural products would have their commissions and profits consumed in loss of interest if they should undertake to keep idle all through the late spring and the summer the money they know they must pay out during the autumn and winter.

Having fully realized that the entire volume of circulation in any community is a burden upon its industries, it is next in order to inquire how that burden may be lightened, and the answer will be found to be, first, by abstaining from legislation tending to enlarge the circulation beyond actual needs; and, secondly, by using paper money to a greater or less extent. The first point will be treated in the chapter entitled Volume of Circulation; the second is to be now established.

Of course the burden of idle money is the same whether such money be of metal or paper, but a part of the cost of "carrying" paper money is offset by the profit upon its issue, while there is no such offset in the case of coins. Banks issue their own notes in exchange for interest-bearing obligations of some character, and as long as those notes remain "out" the bank has the use of that capital free of cost. The profit from such use coming to the bank is (taking the bank and the rest of the community as one whole) an offset to the loss of profit upon the same amount of capital which has been sustained by the members of the community who have, for the same period of time, been successively holding the notes. The first cost of the notes to the bank which issues them is small; but if the bank had no power to issue notes, and was compelled, before it could discount paper, to buy bullion and get it coined, the cost of the bullion would be only a fraction less than the money produced by its mintage. The saving to the community, therefore, from the use of paper money is about equal to the annual interest on the volume of such money less the expense of its issue, redemption, and maintenance in a clean condition. This saving is less upon government issues of currency than upon bank-notes, because, the expenses being the same in both cases, the gross saving on government paper money is merely the interest upon an equal amount of its funded debt, while the saving on bank issues is the interest on an equal amount of commercial debt, and the rate of interest on government debts is always less than the rate charged for bank loans.

Bank-notes came into use in Italy during the twelfth century, and their use afterward followed the development of trade in the several countries of modern Europe. Like the use of bills of exchange, the circulation of bank-notes rests entirely upon the credit enjoyed by the issuing banks; but this fundamental principle was for centuries either unperceived or disregarded by certain governments, which, observing the favor enjoyed by bank-notes, conceived the idea of augmenting their resources by issues of paper money with no basis but the force of the royal mandate.

From this sketch it appears that paper money is of two kinds: that issued by banks and that issued by governments, and further examination will show that each of these two kinds may be classified into convertible and inconvertible. Convertible paper money is that which is maintained at a parity of value with metallic money, by means of arrangements giving to the public the right and the means to convert the notes, at will, into equivalent amounts in coin. Inconvertible paper money is that in respect to which no such arrangements exist. Three conditions are essential to maintaining the convertibility of paper money, viz.:

1. The existence of a monetary unit, established by law, or so rooted in the traditions and habits of the people as to be practically beyond chance of variation.
2. Adequate provision for securing the conversion of notes into coin without unreasonable expense or delay, and in any amount likely to be demanded.
3. General confidence among the people in the permanency and sufficiency of the two preceding conditions.

Inconvertible paper money may be maintained in circulation by a government, but under present conditions of corporate credit it does not seem possible for any bank to maintain such a circulation. The Bank of Venice, in the twelfth century, and the Bank of Amsterdam, in the seventeenth, were able to obtain deposits not subject to withdrawal, and they long maintained this rule, but both abandoned it in time.

Inconvertible paper money, issued by a government, may be maintained at a parity of value with metallic money, provided the following conditions, five in number, exist:

1. There must be a monetary unit, as in the case of convertible paper money.
2. There must be a considerable volume of metallic money in the country, and sufficient foreign trade, or other specific use for coins to keep them in general circulation.
3. The government must make no distinction, in its dealings with the people, between the two kinds of money; both or either must be received and paid out with at least ostensible impartiality.
4. Provision must be made by taxation, or by voluntary funding for the prompt absorption of any redundancy apparent in the volume of outstanding paper money.
5. The people using the paper money must have confidence in the purpose and the ability of the government to maintain indefinitely the four preceding conditions.

Both convertible and inconvertible paper money become depreciated the moment public confidence is shaken in the purpose or power of the issuer to preserve the conditions under which alone such money can circulate in interchangeable effectiveness with coins. Under Gresham's law the primary effect of the depreciation is to cause contraction of the total volume of circulating medium, by expelling from it all money that is not depreciated. What is left thus becomes a sort of leprous currency, with which association and mingling is abhorrent to all forms of sound and healthy money.

XIII.—Treasury-Note or Due-Bill Circulation.

The power to prescribe what shall be legal tender for debt must not be confounded with the natural right possessed by every sovereign government to determine what shall be the medium for paying public dues. That right flows from the right of taxation, and were the States of the Union not prohibited by the Federal Constitution from issuing bills of credit, there would be no force in the legal tender inhibition to restrain them from maintaining a State currency receivable for State dues.

The principle upon which an irredeemable due-bill currency rests, is worthy of careful observation, because it is one of the fundamental principles underlying all monetary circulation except that of the precious metals. It is well illustrated by the circulation of blood in the human body.

Let us follow the note circulation under such a system. The officers and employees of the government, the soldiers, the contractors for public supplies, the mail carriers, the artisans and laborers on public works, with many others, receive the fresh issues as they come crisp from the Treasury. All these persons use the notes to pay the grocer, the butcher, and other tradespeople; some part goes in servants' wages, some in travel and amusement; in one way or another the notes penetrate every nook and cranny in the community. From these innumerable points, which may be called the capillaries of money circulation, where money passes from hand to hand, the notes enter the channels of trade; they are deposited in bank one day, drawn out another, shipped from city to country, and back from country to city, until at length the tax-collector gathers them in and sends them back to the Treasury, soiled with the dust of traffic, the grime of toil, and, perhaps, even the stain of vice. From the moment of issue to that of return to the Treasury, every note passes from hand to hand, from bank to bank, from place to place, entirely because of its tax-paying force. Such circulation may be maintained upon two conditions: First, that taxation shall always keep pace with expenditure, so as to insure that every dollar that is put out will be ultimately demanded back in payment of taxes; and, secondly, that the stability of the government is sufficiently established to exclude all doubt as to its power to enforce the return of the currency by means of taxation.

A due-bill system, as here described, is virtually a method of borrowing by the government from the people, upon the security of the proceeds of future taxation, and without paying interest. The lenders are the employees of the government, its soldiers and sailors, the laborers it employs, the contractors and dealers from whom it purchases supplies; they lend the value of their services or their property, and the government due-bills are their receipts. From these primary creditors the government I. O. U.'s pass to its only debtors, the tax-payers, who settle their taxes with the government by passing the paper back into the Treasury.

No device combines within itself so many of the essential ingredients of tyranny as a due-bill circulation, redeemable only in commutation for taxes; for while it represents the extreme of arbitrary exaction by the government, it fastens upon the mass of the people a yoke from which they cannot escape, except by themselves destroying the value of the paper upon which they have advanced full value by giving their services, their products, and their property in exchange for it. By submitting to the issue of such a currency the subjects of a monarchy abandon their only effective defence against oppression, and they aggravate enormously the cost of revolution, while the citizens of a free state who allow such a currency to be established among them, invest their rulers with a power dangerous to liberty and difficult of restraint. The reason is the same in both cases; an irredeemable government currency binds the people indefinitely to a scale of taxation commensurate with the volume of the paper issues, and thereafter taxation can be reduced only by contracting the currency or by suffering it to become depreciated, alternatives of which both are oppressive and of which therefore either is difficult of adoption.

A due-bill currency may or may not be made a legal tender for debt.

The Government of the United States, in 1862, issued an irredeemable paper currency commonly called greenbacks, and made the notes a legal tender for debts. In this case taxation was not adjusted to the volume of currency emission, consequently the greenbacks became depreciated, although throughout the North commerce and manufactures were enormously stimulated by the war; the country suffered little or nothing from invasion, and immigration was constantly bringing in resources from outside.

XIV.—Bank-Note Circulation.

In the chapter on Paper Money it was shown that two kinds of such money have been in use at various times and places, viz., government currency and bank-notes. We have considered the subject of government currency; we come now to that of bank-notes.

It has been shown (Chapter XII.) that bills of exchange were the first paper money, and that bank-notes were afterward devised. Checks on banks of deposit, so familiar to us, are the most recent development of the bill of exchange, and when "certified" they acquire also the force of a bank-note. Indeed, these certified checks are very much like the earliest bank-notes, which were merely certificates of deposit invented to economize the use of the precious metals. It would be quite practicable now for depositors to draw checks in round sums of five, ten, etc., dollars, payable to bearer, have them certified by a bank, and (unless Section 3,413 United States Revised Statutes should be construed as prohibiting it) use them as bank-notes. Should such certified checks obtain general currency they would become money in the community where so circulating, and would differ from all other kinds of money now in use in this country in being simply a creation of credit, unsupported by governmental provision, and dependent for the continuity of their use wholly on their acceptability to the public.

Such certified checks, used as money, would be, for all practical purposes, like the bank-notes that were in circulation prior to 1862, and the supposed process of their issue illustrates how those bank-notes were issued. During the older period the banks that issued notes placed them in circulation by paying them out upon the checks of their depositors, while under the system above imagined the checks themselves would be certified. This illustration of the certified check is intended only to make quite plain the true nature of the bank-note by showing that such checks, should they be used for money, would serve all the purposes of bank-notes.

The main advantage to be derived by any community from banks of issue consists, first, in the economy of paper as compared with metallic money; and, secondly, in the utility of such banks to productive industry. The plea of economy for the use of paper money, rather than coin, applies to government issues as well as bank-notes, the only difference being in the relative saving effected, and this difference has been shown to be in favor of the bank-note. It may be true that the use of a government currency tends to lower the rate of interest on government bonds, but the share of any one citizen in a fractional saving of interest by the government is so infinitesimal as to be practically worthless, while, on the other hand, it is certainly true that the increase of bank-note issues tends to reduce the rate of interest on commercial loans, and the reduction of one or two per cent. per annum in the rate of interest on the loans made by banks to their customers is a matter of immense consequence to all borrowers.

In the United States, where the government taxation is not in the least degree affected by the interest on the public debt, the people gain absolutely nothing from the greenback currency, amounting to $346,000,000; while the issue of bank-notes to that amount based, not on bonds but on commercial paper, would probably make seven per cent. a maximum rate of interest throughout all our agricultural communities, except those in the newest States and the Territories, and would even there greatly reduce present rates for money. Under the imperfect and often hazardous system of note issues by State banks between 1820 and 1860, the prevailing rates during that period in the communities where those banks were located were six per cent. for discounts, and seven per cent. for interest.

The history of the Bank of Stockholm affords a striking proof of the effect of bank issues of currency in reducing the rates of interest. This institution was established early in the seventeenth century by a merchant, and subsequently, viz., in 1688, was made a State bank. At that date, as one of the conditions of the change, it was limited to eight per cent. as the maximum rate for loans on good security, and it was required to allow six per cent. interest on all deposits, except those of the government, which drew no interest. As a consequence of its operations and its growing credit, the rates of interest rapidly declined throughout the kingdom, and before the close of the century the bank rate for loans was successively reduced to seven, six, four, and finally to three per cent. per annum, while the rate allowed to depositors was reduced, *pari passu*, until it reached two per cent.

It is obvious that during those twelve years the people of Sweden gained from cheaper money vastly more than they could have gained from any saving in the interest on the public debt that could possibly have been effected by issues of government currency, and they would have been greatly injured if such government currency had been maintained in circulation by the prohibition of bank-notes—the policy pursued by the United States since February, 1862.

I say this has been our policy, because the National Bank notes are truly a government currency and possess none of the essentials of bank-notes. When the system was first instituted the National Banks were able to make large profits, because they were getting six per cent. interest on the bonds, besides having the use, free of interest, of money amounting to very nearly ninety per cent. of that invested in the bonds.

These profits were not such as banks of issue make on their circulation. They accrued because the banks bought their bonds for about ten per cent. cash and ninety per cent. credit without having to pay interest on the credit portion of such cost, although they received interest on the face of the bonds. There is no profit now on circulation because the bonds cost 115%, yielding as an investment only about 2½%, while the circulation, less redemption fund, is only $\frac{85}{115}$ of cost.

Because there was no profit in it, the circulation of the National Banks never did make money cheap to borrowers. It must be conceded that the risk taken by the banks during the war, in buying bonds and banking on greenbacks, were fully commensurate with any profits made out of the arrangement for circulation then or afterward; hence there is no basis for assuming that these profits produced any effect in reducing rates of interest on commercial loans, while all the evidence is to the contrary. The profits described having long since ceased, of course they cannot now have any such effect; hence the National Bank currency never has possessed one of the essential qualities of a true bank-note circulation, viz., that of cheapening loans.

That notes issued against deposited bonds never can tend to the cheapening of loans will be evident when it is considered that such notes derive their existence from the deposits of the bonds and their value from that of the bonds; they are issued *to* the bank really, not *by* it, and while in its possession are a part of its assets, being collectively representative of the bonds, its property, deposited at Washington. The notes issued to each National Bank are, indeed, government money advanced on the bank's bonds, and for all money purposes they are just like the notes issued to any other bank; the bank whose name they bear gains nothing by their prolonged circulation. Not so with bank-notes proper which are issued by the bank, have no vitality until issued, and cease to have any money force the moment they come back to the bank that issued them.

Unlike the National Banks, under present laws and conditions, true banks of issue have an interest in putting out all the circulation possible, and in keeping it out as long as possible, and this tends to the cheapening of loans in two ways:

First. The discount of paper and the making of loans constitute the only way in which a bank can get out circulation; hence, as between a bank desiring to extend its circulation and one confined to the use of coin or government currency in making loans, it is obvious that the bank of issue has the greater incentive to lend and can afford to take lower rates of interest than the other. Let us suppose two such banks newly established in a place where prevailing rates of interest have been six per cent. The non-issuing bank finds no inducement to lend below that rate, but the issuing bank, reckoning the profit on its circulation as equivalent to, say, two per cent. per annum, can afford to lend as low as four per cent.

The second way in which, when banks are allowed to issue notes, rates of interest are brought lower than they are when the circulation consists wholly of coins and government currency, is through an elasticity in the volume of bank issues, which has no counterpart in the other system. A specie reserve of one dollar to every three or four dollars of circulation has generally been accepted as sufficient to insure the complete efficiency of bank-note circulation; hence, when there is an active demand for money, the bank of issue that gets in $1,000 in specie may issue against it $3,000 or $4,000 of notes, whereas under present conditions no bank can lend out more than the $1.000 it has taken in, and National Banks may lend only $750 or $850, according to location.

This power to expand the circulation very materially modifies the effect of the forces which operate from time to time to enhance the rate of interest, and if the banks authorized to issue notes are numerous, widely dispersed, and subjected to proper regulations and restraints as to such issues, they cannot fail to be always competing to put out loans, because they will be under the strongest solicitations of selfish advantage to do so, and such competition must cheapen rates of interest.

It must not be forgotten, however, that the power to put out four dollars of notes for one dollar of specie acquired is inseparable from the obligation to retire four dollars of the bank's circulation for every specie dollar withdrawn from its vaults; hence the importance of numbers, wide distribution, and intelligent effective regulation.

It is, however, in the performance of that primary function of money which consists in effecting industrial and commercial exchanges that a bank currency is chiefly superior to a currency of coin and government paper, singly or mixed.

Purely agricultural communities use very little money during long periods of each year; very little is retained there. On the other hand, when crops ripen and have to be harvested and marketed, a great deal of money is required in those communities, and, as it is not present, it must be brought there, and that involves delay, expense, and sometimes inability to command a sufficient supply.

Now no augmentation, gradual or spasmodic, in Government issues of currency or in Treasury disbursements of surplus revenue, can obviate this inconvenience and expense to farmers, because a currency abundant even to the point of redundancy never overflows into places where there is no profitable employment for money, but the excess becomes absorbed in speculation, and that is carried on, not on farms, but in cities. On the other hand, banks of issue located in agricultural sections are admirably adapted to supplying with their issues of notes these annual and comparatively brief periods of demand for money for moving the crops, and farmers whose needs are thus supplied are neither subjected to heavy discounts on the drafts drawn against their produce nor delayed in marketing their crops, or in making their purchases, by the want of money.

Under our present system of currency, during the months from March to August, the bulk of the circulating medium is finding its way, at much expense for expressage, and much cost in loss of interest, from thousands of points all over the country to the cities, and ultimately it becomes concentrated at a few centres; then, during September, October, and November, it has to be redistributed, at like expense; whereas if our six thousand banks were allowed to issue notes as the State banks did before 1862, a great part of this trouble and expense would be avoided.

If country banks were required to keep a reserve of twenty per cent. against their note issues their entire autumnal expansion would cost just one-fifth of what it now costs to fetch currency, and, under a proper system of redemption centres, the expense could be still further curtailed.

We had once in this country a great many banks chartered by the different States and authorized to issue notes payable to the bearer on demand. Confidence of course was essential to the circulation of the State bank-notes. It was therefore vital to banks of issue to maintain their credit, and to this end a reputation for prudent management, as well as for integrity, was essential.

A well-managed bank of issue got its notes into circulation by exchanging them for the notes, drafts, or acceptances of individuals and firms engaged in business, " commercial paper," as it is called. The bank's profit was obtained in the form of discount or interest on the commercial paper, the bank-notes carrying no interest. To put out a circulation in this way was regarded as intelligent and prudent banking, if care was taken in the selection of the commercial paper " done," if the maturities of this paper corresponded with the probable course, as to time, of the bank's circulation, and if the volume of notes thus put out was adjusted to the capacity of the community to absorb currency.

Manifestly this kind of money is much more economically obtained than the same amount of gold and silver; consequently communities where it prevails are enabled by it to use, productively, whatever proportion of their capital they would otherwise have to keep in the unproductive form of coin.

Under such a system of banking, however, the cost of a metallic currency is not wholly avoided, because some coin has to be kept by the banks. This coin is the connecting link between the bank-note and the monetary unit, for it is the medium of redemption of the notes. Identity of value between the bank-note dollars and the monetary unit is essential both to the bank and to the holder of its notes, for the latter requires assurance as to this identity before extending his confidence to the notes, and the former is ready to furnish such assurance, because it absolutely depends upon that confidence to keep its circulation afloat. This system of banking, beginning in England, acquired its highest British development in Scotland, and grew up in this country as soon as the adoption of the Federal Constitution of 1787, and the monetary legislation of Congress established a foundation for it in the institution of metallic money and a definite and stable monetary unit.

Though there were many imperfections of system, and numerous instances of dishonest, ignorant, and imprudent management, most of the banks of issue under State charters were so managed as to materially promote the prosperity of the communities where they were established. In 1862 the National Bank Act put an end to this system of banking.

In speaking of the banks of issue in a previous part of this chapter it was said that prudent and intelligent banking forbids a bank to lock up a bank's funds in anything that has to be sold in the local market in order to get them out again. The only legitimate investment for the funds of a bank is the commercial paper which represents the actual industrial operations of the community, and which presumably will be paid at maturity.

Now the National Banks are required by law to violate this ancient and well-established rule, for while it is true that the capital, wholly or in part, is first invested in bonds, and then the notes issued upon the bonds are available for investment in commercial paper, yet the effect is the same as if the capital were held in money and the notes invested in the bonds. Take a bank with a paid-in capital of $1,000,000 and a circulation of $900,000. The effective force of such a bank as an auxiliary to productive industry should be $1,900,000, but is really less than $1,000-000, because, as the bank holds $1,000,000 in United States bonds as a basis of circulation, the bond investment locks up from $1,000,000 to $1,150,000, according to the class of bonds held, and leaves the bank only from $750,000 to $900,000 effective capital.*

The public, shareholders and note-holders combined, have put into the bank $1,900,000 of money or its equivalent, and they are getting the use of only $750,000 of this sum, while under the former system they would have the use of the whole $1,900,000, while the bank would hold against it not government bonds locked up at Washington, and constantly depreciating in value, but gold and silver coin to the amount of $300,000 to $400,000, and commercial paper constantly and continuously running to maturity and amounting to $1,500,000 to $1,600,000.

Contrasting the two systems as sources of circulation, the one reduces the available money of the community from $1,000,000 to $750,000, an actual contraction of $250,000 on every million, or twenty-five per cent., while the other increases it from $1,000,000 (original capital) to $1,900,000, less $300,000 to $400,000 coin reserved, say to $1,550,000, making an addition of fifty-five per cent. to the local supply of loanable funds.

Another feature of the National Bank system which will prove a source of great weakness in case of disaster is the practical inconvertibility of the notes.

The total volume of National Bank currency outstanding October 2, 1894, as reported by the Comptroller of the Currency, page 4 of his Annual Report, was about $200,000,000. This was redeemable in greenbacks, and the greenbacks are by law redeemable in coin. To meet this obligation the Secretary of the Treasury holds $100,000,000 in gold against the total greenback issue of $346,000,000. Now in case a condition of things should arise leading to a run upon this reserve, holders of the National Bank notes would demand greenbacks for them and then use the greenbacks to obtain gold. Consequently the $100,000,000 of gold is the coin basis of the National bank circulation and of the greenbacks also, which is $\frac{100}{546}$, or less than twenty per cent., of the circulation resting upon it, while under the old system the coin reserve was from thirty to forty per cent. From this point of view, therefore, the National Bank note circulation does not appear to be as well equipped, as to convertibility, as was the old State bank circulation.

It being clear that, regarded merely as a substitute for coin, bank-notes are more profitable to a community than government notes, the next point is as to the relative liability to depreciation of these two kinds of currency. The first point of difference between them in this respect is fundamental, because it lies in the basis of their issue. As has been seen, the government notes are issued to creditors of the government, while the bank-notes are issued to debtors to the bank.

Thus, for the redemption of its own notes the bank holds the security it exacts from its debtors, while against the government notes there is no provision for redemption but the government power to levy and to collect taxes.

There is another point: No bank has any obligations inconsistent with that of preserving its solvency, so that every bank that is honestly and intelligently managed will generally have assets sufficient to meet its liabilities; but governments are subject to political and other influences tending to extravagance, and nothing is so well adapted for disguising extravagance as the power to issue paper money--nay, nothing is so conducive to extravagance as that, because, generally, currency inflation commands popular applause. On this ground, therefore, it is wiser to use bank-notes than to permit the government to issue paper money.

XV.—THE BALANCE OF TRADE.

Every man in business understands what is meant by making his bank account good. He knows that however large may be the aggregate amount of his checks and deposits during the day, all that he has to be careful about is that the resulting balance is in his favor. The balance is the only thing regarded, either by the bank or by the merchant.

When several banks are doing business in the same place, each will receive from its depositors checks upon the others. In settlements between these banks the balances only are regarded. If there is a clearing-house, each pays or receives its own general balance through that institution.

Where there are banks and clearing-houses, therefore, all the varied operations of a great mercantile community may go on without any money passing, except what is required to settle balances, to pay wages, and to carry on the retail trade. The same principle obtains in settlements between cities. The state of the balance between the two cities influences, but does not of itself alone determine, the rate of exchange on New York at Chicago; but the rate of exchange determines currency movements between the two cities, and practically brings it about that only the final balance between all the banks in Chicago, on the one hand, and their correspondents in New York, on the other, is settled in money.

The foreign trade of the country is carried on by means of bills of exchange payable in London, Paris, etc., the bankers here purchasing and remitting bills drawn against exports and supplying their own drafts to importers to pay for goods brought into the country. Here, again, it is the balance only that has to be settled in money. If the values imported exceed those exported, rates of exchange rise, and money must be shipped abroad; if exports exceed imports in value, exchange falls, and money comes from abroad.

Amid the countless transactions of great cities, indeed, in the vast volume of commerce between continents the primary use and function of money still survives; values are exchanged (through cheques and bills of exchange), as they were in barter 3,000 years ago and the money comes in at the end only to "even the trade" to settle the balance. What is still more remarkable is that to-day settlements are made between nations as Abraham settled with Ephron by weighing the silver and gold, for, whether coined or not, the precious metals in international trade pass by weight, *i. e.*, by intrinsic value only. So difficult is it for men to escape the operation of natural laws.

Czars, Parliaments, and Congresses may coin metal and emit paper money, Latin unions, great nations, and many small communities may accept these and give them currency at arbitrary valuations, each within its own borders, but in the world's clearing-house world-wide values alone are available, and these must come in pure metal and must stand the test of accurate weighing.

Now the law of finance underlying all these instances is the law embodied in clearing-house rules, viz., that when several kinds of money are circulating in the community, all balances must be settled in that kind only which is available for the settlement of outside exchanges; and from this proposition there is deduced, as a corollary, the following principle, viz., that only what is available to settle balances at any money centre is good money throughout the entire area within which exchanges are focused on that centre.

The reason of this is obvious. A man who has to make good his balance in bank cannot accept from his debtor, or in payment for his services or wages, anything but what the bank will take, *i. e.*, what is known as bankable funds. The banks exact this because they, too, must meet all demands upon them, including their clearing-house balances, and they can do so only in such funds. The clearing-house cannot relax the rule, because if it did the community would, under the operation of Gresham's law, very soon lose all its wide-range money and have only a local circulation, unavailable for meeting the demands upon it from other places, and that unavailability would paralyze its business by embarrassing collections, thus discrediting its merchants and eventually crippling the banks themselves.

This being the case, it follows that no commercial community is entirely free to set up a local money of its own; if statute laws do not forbid, natural laws will hinder and embarrass the use of such money, while every commercial community finds its interest promoted by the largest possible local circulation of that currency, among all within its reach, which has the widest range. In the United States no commercial city can afford to be without money that is good in New York. In New York and other financial centres there must always be a stock of money that is good in London.

XVI.—THE VOLUME OF MONEY.

Much controversy exists as to what volume of money should be maintained in the United States. The first, and apparently the most popular, theory, is what may be called "the *per capita* requirement," which is, in effect, that the volume of money in the country should increase in some sort of proportion to the increase in the total number of inhabitants.

The first inquiry must be whether there is really, or can be, any relation between the number of people in the country and the number or the money amount of coins and notes existing at any particular time; because, of course, the whole theory of a *per capita* requirement of currency depends upon there being such a relation. If any argument exists in support of this postulate, I have not seen it.

The following table contains facts pertinent to the inquiry in hand, the column "Bank Credits" including bank capital and deposits.

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* For obvious reasons the banks generally hold four per cent. bonds, so that the larger figure is nearer the average than the smaller.

APPROXIMATE SUPPLY OF CURRENCY IN THE AGGREGATE AND PER CAPITA IN THE PRINCIPAL COUNTRIES OF THE WORLD.*

Countries.	Population.	Stock of Gold.	Stock of Silver.	Uncovered Paper.	Per Capita.				
					Gold.	Silver.	Paper.	Bank Credits.	Total.
United States....	68,900,000	$626,600,000	$625,300,000	$475,700,000	$9.09	$9.08	$6.90	$80.50	$105.57
United Kingdom.	38,800,000	550,000,000	112,000,000	113,400,000	14.18	2.88	2.92	120.00	139.98
France..	38,300,000	825,000,000	492,200,000	88,000,000	21.51	12.85	2.31	35.00	71.70
Germany	49,400,000	625,000,000	215,000,000	88,000,000	12.65	4.35	1.78	25.00	43.78
Belgium.	6,200,000	55,000,000	54,900,000	51,200,000	8.87	8.85	8.26	25.00	50.98
Italy	30,500,000	94,000,000	30,000,000	167,600,000	3.15	0.98	5.50	18.00	27.63
Switzerland......	2,900,000	15,000,000	15,000,000	16,600,000	5.17	5.17	5.72	30.00	46.06
Spain............	17,500,000	40,000,000	166,000,000	107,100,000	2.29	9.48	6.12	14.00	31.89
Portugal.	4,700,000	38,900,000	21,800,000	55,500,000	8.27	5.28	11.81	11.00	36.36
Austria-Hungary.	43,200,000	130,000,000	121,000,000	146,300,000	3.00	2.81	3.38	19.00	28.19
Netherlands......	4,700,000	27,600,000	56,500,000	35,900,000	5.87	12.02	7.64	22.50	48.03
Norway.	2,000,000	7,300,000	1,900,000	3,900,000	3.65	0.95	1.95	15.00	21.55
Sweden..........	4,800,000	6,500,000	4,800,000	16,500,000	1.35	1.00	3.44	26.50	32.29
Denmark	2,200,000	14,200,000	5,400,000	5,400,000	6.46	2.45	2.45	58.00	69.36
Russia & Finland.	124,000,000	455,000,000	48,000,000	530,000,000	3.67	0.38	4.27	6.00	14.32

* This table is made up from data given in the Report of the Director of the Mint, 1894, and Mulhall's Dictionary of Statistics.

If, as appears from this table, no uniform proportion of currency to population exists as to countries, does any exist as to lesser communities, say our States, counties, cities, and towns, or the cities or provinces of the European countries referred to? The experience and the common sense of every reader may be appealed to in decision of the notion that the number of people in a house, a town, a State, or the whole country, has anything to do with the total volume of the money held or required in each of these communities.

The disparity shown in the tables simply proves that everywhere but here governments accept the doctrine which requires them to refrain from meddling in commercial adjustments, and especially to refrain from any attempt to increase or diminish the volume of money by administrative measures or by legislative enactment.

Another theory is, that the volume of currency should increase with increased wealth. This is indeed the true doctrine on this subject, as may easily be substantiated without going abroad.

The facts connected with currency distribution and movements over great areas and among large populations are difficult of discovery and impossible of precise ascertainment because of the incessant mobility of money; while on the other hand, facts as to the normal movement of coins and notes in any particular locality are readily obtainable. These facts establish the principle that the office and function of money is to pass from hand to hand, and a corollary deduced therefrom is that, except while actually so passing, coins and notes are, as far as their effect goes, not money at all.

Whatever money, therefore, is hoarded, whatever is held up in banks, whatever is otherwise out of circulation, constitutes reserve of material available for circulation but it is not a part of the active circulation; hence the tables above referred to are misleading, because in interpreting them it is generally assumed that all the money in each country is in circulation, whereas it is never all in circulation, and no one knows how much of it is circulating at any particular time of day or night.

One dollar that changes hands ten times a day does the duty of ten dollars used once in liquidating debt, effecting exchanges, and measuring values, which are the only uses of dollars as money; but the dollars resting in some man's pocket, or till, or safe, are functionless.

Now any theory of money distribution or currency supply must be defective that does not take account of the increased effectiveness of money by reason of repetition of employment, and also of the proportion between active circulation and reserve which obtains in different communities. These two principles are really what control the quantity of money required in any community, at any given time, and because these vary incessantly and independently, while the population is nearly constant numerically, it is impossible for the *per capita* requirement theory to have any foundation in reason, or to find any support from facts.

Legislation, therefore, influenced in any degree by efforts to apply this theory, is misguided and likely to prove injurious. To illustrate this view of the subject, money may be compared to the rolling stock of a railroad. Money is an instrument of exchange through the transportation of value; railroad cars are instruments of exchange through the transportation of commodities.

Now what railroad manager would disregard these considerations and fix the number and capacity of the locomotives and cars for each road by the length of its track, or in proportion to the population of the country through which it runs?

Manifestly the best thing for railroads generally is that each company should be free and able to adjust the number of its locomotives and cars to its average needs, to hire out its idle stock when its own traffic is dull, to hire from its neighbors in times of activity.

Now within fifty years our railroads have marvellously increased in number and extension; this whole system of car-interchanging has come into existence and attained proportions but little appreciated by the general public, and although producers and consumers of every sort and everywhere are vitally dependent upon the uninterrupted use of the facilities of transportation they afford, there is among the people absolute confidence that the managers of these roads can and will provide cars and locomotives enough for all purposes. No one has dreamed of suggesting that the supply of these should be proportioned to the population; no one has proposed that the government should build locomotives and cars.

If such measures were adopted they would immediately disturb railroad management throughout the United States; every workshop for the manufacture of locomotives and cars would curtail its operations, stop the purchase of raw material, of castings, fittings, etc.; the purveyors of these articles would find their business paralyzed, and, after fifteen years of government effort to increase the supply of rolling-stock, there would be fewer locomotives and cars in the country than if the railroads had been let alone

Is this not a striking likeness of the consequences of the effort made by the government to increase the supply of money in the country by first coining two million dollars' worth of silver every month and afterward buying, with notes issued for the purpose, 4,500,000 ounces of silver monthly? Are not the banks surrendering their circulation; are not credits curtailed; have not gold coins, estimated to amount to $600,000,000, disappeared entirely from ordinary circulation; have not greenbacks become rare?

Since communities, however populous or geographically extended, consist wholly of individuals, and since all individuals are governed, in respect to these matters, by the same impulses and considerations, it follows that the supply of currency in every community will be distributed at any particular moment according, first, to the relative desire of different individuals to use particular amounts, immediately or prospectively; and, secondly, according to the relative ability of these individuals to obtain the amounts they severally desire.

If anything causes a large proportion of the individuals in any community to simultaneously accumulate currency, each having regard only to his own requirements, immediate and future, the aggregate of such withdrawals from the volume of currency will reduce that portion available for active circulation below the current needs in the community, and produce what is commonly called "a scarcity of money." It is a natural law, resulting from the uniformity of human action under like conditions, that a general opinion that such a scarcity is likely to arise tends of itself to produce that scarcity, because every man in endeavoring to provide himself with money enough to tide over the apprehended "squeeze," holds up all the money he can, and so helps to precipitate that very condition against which he is endeavoring to guard.

Now in spite of whatever efforts governments may make, no community ever retains for any length of time a greater volume of circulation than will suffice for its ordinary needs.

There is, therefore, always a tendency, under normal conditions of business and of political and social tranquillity, toward the establishment of an equilibrium between the average volume of daily cash transactions and the volume of the circulation, including in this term the checks, drafts, notes and credits which take the place of "lawful" money. This being the case, when an occasion arises, as above described, impelling a general resort to the holding up of money, scarcity is inevitable.

It is evident, therefore, that no amount of money emitted by the Government can avert periods of scarcity, and there are those who think that the somewhat regular recurrence of such periods is inevitable. It is, however, equally evident that the greater the area covered by any single monetary system, the less likelihood will there be of any occurrence producing a unanimous and simultaneous movement toward the holding up of money.

At the same time, if all over this area, through the agency of banks and the other appliances of modern finance, a free movement of money is practicable, from one individual or bank or town or city or country to another, a temporary increase of need at one point will generally be coincident with and be supplied from a temporary superfluity at another. In this way actual scarcity would be prevented to a great extent, and the effect of an apprehension of scarcity would be reduced to the minimum.

It follows that periods of stringency are less likely to occur in proportion as the area and population under one monetary system become enlarged, and hence it may be inferred that if the whole world were under a uniform monetary system, such occurrences would be reduced to the minimum, if they were not rendered impossible.

The great majority of people are led to favor the *per capita* theory of money, not because they believe in it as a theory, but because it affords ground for increased issues of money by the Government, and they think that such increased issues will promote prosperity by "making money plentiful."

Let us therefore examine this latter proposition.

If one tries to think out the details of any conceivable process by which the mere plentifulness of money benefits any individual, he will find that he has to suppose certain conditions of means, opportunities, abilities and purposes, all of which must be combined before such an individual can appropriate any advantage to himself from the plentifulness of money, and then upon a close analysis it will be found that the advantage arises out of that combination, and not out of the plentifulness of money.

The fundamental fallacy of this whole notion, that the government should make money plentiful, lurks probably in a confusion of ideas about the effect of an abundant supply of money.

The dearness or cheapness of money must depend primarily upon the relation between the supply of loanable funds and the demand for the use of such funds. The term loanable funds is by no means restricted to actual money. Nearly all loans are made by credits entered on the books of a bank, or by checks or drafts or acceptances, and these pass into the general clearings of the community, of which only the resulting balances are settled in money; hence the mere plentifulness of money is only remotely connected with the supply of loanable funds. The state of trade, the prosperity of the community, the degree of confidence in the immediate future, and the general state of credit, immediately and directly, influence both lending and borrowing. Whatever tends to depress these, tends to raise the price of money by decreasing the supply of loans and increasing the demand for them; and, *vice versa*, whatever tends to improve trade and augment prosperity, whatever increases general confidence and strengthens credit, tends to make money cheaper by encouraging lenders and rendering borrowers less eager.

Now unnecessary, unwise, or ill-considered augmentations in the volume of the currency tend to produce the conditions that inevitably make money scarce and raise the rate of interest.

1st. They tend to unsettle values, and in that way to disturb trade adjustments, which disturbance in turn impairs confidence and abridges credit. Consequently lenders of money become timid and borrowers become more eager, money is held out of circulation and people say it is scarce.

2d. A government that assumes to itself the function of continually increasing the volume of money never reaches a point at which it can stop, because each augmentation tends to make money dearer, and since the object is to make money cheaper, there will always be a clamor to increase the scale of annual augmentations. A government so situated is like a horse going down hill in a wagon without brakes; he must ever be going faster and faster, and yet at each stride he augments the momentum of the mass that is pushing him to destruction.

Simply making money plentiful cannot exercise the least influence to increase the demand for any man's labor or products. A tradesman may have millionaires passing his shop every day without selling them anything, while he drives a good trade with boot-blacks and others whose means are limited and precarious, but who desire the goods he deals in, while the millionaire does not want them. If the money in the pockets of the passer-by brings no increase of trade to a shop, how can such increase come to it because of money lying in bank or held in the National Treasury?

It follows from this that it is no part of the duty of the government, in providing money for its people, to attempt to create supplies of money to any amount, arbitrarily or hypothetically determined upon in advance. The laws can and should be so framed as that the quantity of money in circulation will be determined, from day to day, by the demand for it. It is the demand for money, the extent of the need for its use, that should regulate its quantity.

Since money performs its functions as a medium of exchange by passing from hand to hand, its effectiveness depends upon the number of exchanges effected by the same money in a given time. Rapidity and smoothness of circulation, not greatness of volume give effectiveness to a currency. To attempt to stimulate trade and so to increase general prosperity by creating a volume of money greater than can be used effectively, is not only futile but pernicious, because it inflicts, either upon the government or the people, the expense of carrying so much dead capital.

XVII.—VALUE.

Value is an abstract term expressing a relation—it does not exist in things said to possess it, but is imputed to them by human intelligence—it is not a quality of objects, but only an attribute with which they become invested. Value is very different from utility, though utility is generally, but not always, the basis of value. Utility is a physical relation, whereas value is an abstract relation. Brute animals have a perception of utility; they have no conception of value. Value is a purely human conception. Value may be primarily and generically defined as the relation between human desire and proximate objects of human pursuit. Those things with which nature supplies us gratuitously are not objects of pursuit, and therefore they are not invested with value; value comes wholly from unsatisfied desire. It is true this desire is excited by our knowledge of the qualities of the thing, and by our opinion that those qualities render the thing desirable; but this knowledge and this opinion are in our minds, they are not in the thing. Value being a relation, it must vary by degrees, not by quantities; and degrees of value, since value is the correlative of desire, must vary with the intensity of the desires to which they are related. But since value attaches only to that which, though desired, is as yet withheld from our possession, then value must vary also with the resistance to appropriation.

We may, therefore, measure the intensity of such desires by money or else by human exertion, say by hours or days of labor or of pursuit. Under civilization, cost, outside of civilization, intensity and duration of exertion, measure the obstacles to appropriating any desired object. Value, therefore, is measured by money or by human exertion during certain intervals of time.

But, it will be said, things already possessed have value. This is true, for their possession by one man is an obstacle to their appropriation by others; but it is only the desire of others to appropriate them that gives then value when in the hands of their possessor.

As an attribute only, value is potential, indefinite, undetermined, conditional, and only becomes actual, definite and determined when it is conditioned, and has assumed the aspect of a relation between the thing desired and one or more persons desiring it.

The force of gravitation produces relations somewhat like those expressed by the term "value." We are accustomed to speak of the weight of bodies as we speak of the value of commodities, but weight is not a quality of such bodies; it is merely an attribute expressive of a relation between its mass and the earth's mass.

Ordinarily, value varies according to demand and supply, as the phrase goes, and ordinarily demand is assumed to be as constant as the earth's mass is, while supply, being visibly variable, is represented by the mass and density of the lesser body.

While all matter is subject to the force of gravity, and under ordinary conditions that is a constant force, certain substances are subject to other forces which, because they tend to modify the influence of gravity, are habitually measured by the degrees in which they effect such modification. Motion is one of these forces; magnetism is another.

As weight is the relation between the earth's mass and any body suspended ponderably within the scope of the earth's attraction, so value, in a general sense, is the relation between the world's demand and any commodity suspended commercially within the scope of the world's attainment. Again, as motion is a relation between, on the one hand, the body moving and, on the other hand, definite points in time and space, so "value in exchange" (money or its equivalents) is the relation between the commodities serving as money, on the one hand, and definite standards or fixed points of value, on the other. Finally, as magnetism is a simple relation of elective affinity, so the intrinsic value of precious stones and objects of art seems to express that intensity of desire which distinguishes the pursuit of gratifications from the pursuit of objects of mere utility.

In the light of this conception, it may clarify our views of money to regard it as a value in action. It does exhibit some of the characteristics of force. It is a debt-paying force under statute law; a labor-compelling force, and a purchasing force under industrial laws. Now, forces to be utilized must be measured, and their measurement is expressed in degrees of force, while the mode or scale of measurement depends upon a fixed standard, in like manner, money, to be useful, even as a debt-paying force, must be permanently related to some fixed standard of value.

Commerce deals in commodities; finance deals in values. Commodities are things classified according to their substance, their utility and their distribution; values are things classified according to their value, without regard to substance, utility, or distribution.

Regarded as a whole, commerce is really reducible to a complicated system of barter, of which finance is employed in keeping an account. The commodities exchanged in bulk by commerce are here measured by value, regardless of their substance. Every invoice is represented by a bill of lading describing its substance (commercial force) and a bill of exchange specifying its value (financial force). Bankers deal in these, and when balances arise between individuals, cities, sections, or countries, bankers (who are merchants of money) transfer the "boot" that "evens the trade." Banks perform this office for individual traders, cities, and sections; clearing houses perform it for banks; the body of foreign bankers perform it for the foreign commerce of the country considered as a whole.

This being the case, it follows that the principles of barter, of simple trade, must apply to all commercial and financial operations; that the ciphers which in notation distinguish 1,000,000 from 1, merely change the degree of whatever force the integer possesses—1,000,000 dollars is simply one dollar raised to the millionth power, as a million bushels of wheat means one bushel repeated a million times. The commerce of the country, though expressed in hundreds of millions of dollars, is made up wholly of transactions conducted by individuals; all of these are reducible, as we have seen, to a common denominator, value; hence in the aggregate they are subject to the laws and influences that apply to each separate transaction, and to none others.

XVIII.—The Standard of Value.

Ephron the Hittite, dwelling among the children of Heth, owned a field which Abraham, who had come to Hebron to bury Sarah, his wife, desired to buy for a sepulchre. Ephron pressed it upon him as a gift; Abraham insisted upon paying "the full money it is worth." Whereupon Ephron said, "The land is worth 400 shekels of silver."

We feel as much confidence as Ephron expressed as to the money our property is worth; yet statesmen, financiers, and economists have been for a hundred years debating what is the standard of value, and are to-day undecided whether the labor that produces values is also the basis of their measurement, or whether values and labor, too, are measured by gold and silver. In recent years another question has arisen, viz., whether gold alone should or should not be made by law the sole standard of value.

The existence of trade creates the need of a standard of value, and since trade at the present day is world-wide, there is now a necessity, not existing even a hundred years ago, for a world-wide standard of value. Millions of us buy and sell things by yards and pounds, bushels and gallons, and are content with the implements kept in the shop or those sold to us for use at home. We assume that they are correct, and make them the standards for all our measurements—without recalling, even if we know, that the laws require implements of measurement to conform to certain standards carefully and accurately constructed, which are kept under lock and key at the National Museum at Washington.

So it is with our value-scales; we use dollars, etc., as measures of value, without reflecting that their usefulness for this purpose depends wholly upon their correspondence with the standard of value fixed by law, just as the usefulness of foot-rules, quart measures, and pound weights depends upon their conformity with the legal standards of dimension and weight.

We have seen how in each country the monetary unit serves as a standard by which local money is maintained at uniform value, so that any of it may serve as a measure of value in the daily traffic of the people; and the same principle requires that all nations that trade together must have a standard of value common to all.

It has been established in Chapter XV. of this treatise, that whatever settles balances at any focus of exchanges is alone competent to serve all the purposes of money throughout the area traversed by the transactions settled at that focus; hence, so far as the purely commercial aspect of the question is concerned, it would appear that all countries able to do so should make their monetary unit of gold, because gold alone settles balances in London, which, being at the focus of the world's exchanges, is the world's clearing-house. It is idle for us in the United States, or for any other nation, or set of nations to rebel against this requirement of commerce, because resistance is futile.

No particular nation or people can separate itself from others in respect to the medium for settling international balances, except under the penalty of commercial inferiority, if not isolation; for the condition of commercial fellowship among civilized nations is that each shall conform to the general practice of all. This principle asserts itself whenever communities, nations, races or still greater aggregations of men are animated by a common purpose or seek an end desired by all.

In our age, finance rules the world, and London is its throne; finance holds supreme sway over values; hence its empire includes every man, woman and child on the face of the earth who is engaged in industry, or who is remotely dependent upon those so engaged, because industry must be ever producing values, and it is ever dependent upon finance for effecting the exchanges by which alone its products are distributed and its productive forces nourished. Lombard street is the focus of those exchanges, and whatever measures values in Lombard street must necessarily determine and control values wherever industry plies the plough the pick, the hammer, the shuttle, or the yardstick.

Whether we consent or not, therefore, whether we approve or not, as long as the world has Lombard street for its clearing-house, just so long must we conform to the standard of value there.

The fact that London is to-day measuring values in gold, although values were once measured there in silver, suggests an inquiry as to whether formerly silver and now gold are ultimate standards, or whether these are merely implements of value-measurement based upon and conformed to some higher, broader, and more permanent standard, as the French standards or units of physical measurement are based upon geometrical data.

This opens up the question as to what is the true scientific standard of value.

No object will serve that purpose unless it fulfils the œcumenical conditions, *Semper, ubique, ab omnibus*; that is, it must "always, everywhere, and by all men" have been regarded as of prime value. Evidently, if such values exist, it is among them that we will find the standard we want.

Quite a system of political economy has been constructed upon the dictum that human labor is the ultimate standard by which all values are determined. This is an attractive notion; but it is not true and it would be unfortunate if it were true, because human labor itself is by no means a constant force, for it is affected by precisely those qualities, physical, intellectual, and moral, which distinguish individuals from each other.

There is no kind or amount of human labor that will produce, in the same time and under like conditions, at Calcutta what the same kind and amount produces in New York, whether measured in wages or in any other way. How, then, could any given modicum of labor be used in either of these places to measure the value there of the products of the same modicum of labor performed at the other place?

Again, almost every man can earn more and do better for himself in one place, or in one employment, than in any other. This truth is the foundation of Adam Smith's practical exposition of what he termed the division of labor; it is the keystone to the philosophical doctrine of free trade, but it utterly excludes from possibility of verity the theory that human labor is the ultimate standard of value.

Since neither human life nor human labor can be used as a standard of value, we must look for that standard among the various forms of property, and especially among the substances to which mankind has everywhere and always attributed the highest value as objects both of possession and of pursuit.

Again, since values differ among themselves by degrees, since they rise and fall by gradation, a standard of value must be capable of systematic and accurate subdivision, without loss of value. Such adaptability to subdivision must apply not only to the mass, but also to those qualities of the substance in which its value inheres, so that, of any two equal quantities of the substance selected as a standard of value, either will be worth as much as the other, and any fraction of one of these quantities will be equal in value to a like fraction of the other. This property of continuous divisibility, without loss of characteristics or value is the distinguishing quality of all metals which are capable of being brought into a state of uniform purity.

We have already seen that many different substances have been used as money, and that all have been forsaken for metals, as communities advanced in industrial development. Even under present conditions, it is conceivable that the world might get on with a standard of value based on one of the grosser metals, such as iron, tin, or copper, because those metals possess value and also the property of accurate subdivision; but since the number of metals affords a choice among them, that choice has fallen finally upon silver and gold. It is obvious that, in fixing upon silver and gold to be standards of value, modern nations have simply followed a natural law, because these metals have always been, and are everywhere, regarded by all men with the highest degree of estimation, *i. e.*, they have been more constantly and more universally than all other metals, objects of that relation which is designated by the term value, and hence are the best fitted to be exponents of value.

Without reference, therefore, to the questions raised by the bi-metallists, let us proceed to inquire how it has come about that the world is now gravitating toward the single gold standard. We have already seen that universal industry produces universal commerce; universal commerce requires a world's clearing-house; London is the clearing-house; in London gold is the money of ultimate settlement, and all the advanced countries of the world seem to be under compulsion to adopt the same usage. Now, why does London insist on gold?

XIX.—The Gold Standard.

The gold standard has not been established by measures designed to bring about that result, but it has come into use under the influence of commercial forces, which in their origin, nature, and effect were altogether independent of any reasoning or theorizing as to the material of money or the measurement of values.

The adoption of gold as the sole standard of value, wherever these changes have occurred, is just as natural, as inevitable, and as final an outcome of such changes as are the substitution of steam-power for horses in land transportation and for sails in navigation; the substitution of gas and electricity for whale-oil and candles in illumination; and the substitution of iron and steel for wood in ship-building. None of these substitutions occurred suddenly. They were at first proposed by theorists, and were long contended for in argument; but in all cases they worked their own way slowly, by experiment at obscure initial points, widely apart, and are established now only because they are the best things of their several kinds that the world has had any knowledge of, and they are destined, no doubt, in their turn to be supplanted by other things now unknown and undreamed of.

The communities that earliest adopted these improvements have longest enjoyed their benefits, and have thereby become recognized as among the advanced communities of the world. Those that have not yet adopted them are laggards in civilization.

To understand how the adoption of the single gold standard is related to all these other substitutions of the new and better for the old and worse, will be found easy enough if one bears in mind the principles which have been set out and illustrated in the preceding chapters of this treatise. 1. The principle that progress in respect to the material of money has always been, and must always be, from less valuable to more valuable substances. (Chap. IV.) 2. The principle that confidence is a *sine qua non* of the monetary efficiency of any circulating medium (Chap. VI.) 3. The principle that definiteness and stability of value are indispensable qualities of money. (Chap. VIII.) 4. The principle that only money, good everywhere within a given area of industry or trade, is available in the settlements of balances at the point upon which the exchanges of that area are centred. (Chap. XV.) 5. The principle that there can be but one standard of value in any such area. (Chap. XVIII.)

While it is evident that "the nature of things" is responsible for the use of gold as the sole medium of settlement in London, it may be interesting to follow the process by which the transition from silver to gold has been effected.

The changes mentioned above as having been wrought during the present century, have reduced all values except the value of human endeavor, but this last has never before been so well compensated as it is now. And since, simultaneously, all other things have been cheapened, the earnings of men bring them in vastly more in all articles of need, of comfort, and of luxury than could have been acquired by the same effort at any previous time.

In early days obstructions to transportation were so great that values in any one place maintained a degree of stability impossible under present conditions. Areas of reciprocal trade were circumscribed and the barriers of nature were so effective that commerce could break through them at only a few points and by methods both tedious and costly. Robbers infested the overland routes, pirates roamed the seas; hence overland transportation was dependent upon caravans under military escort, and marine commerce was hazardous beyond modern comprehension.

The result of this general condition was that the industrial world was made up of numerous distinct communities, with but little local trade in any, and very meagre intercourse with each other. Under such conditions the stock of money in each of these communities was of small value and consisted of numerous pieces of minute denomination. Silver was the only precious metal cheap enough to serve as a multiple of these minute monetary values, and the obstacles to transportation kept each community's stock of silver nearly constant in quantity, and consequently nearly stable in value. If there had been any use for gold as money in such communities the stock would have been more variable, because value is more portable in gold than in silver, and consequently its value as a basis would have been less stable.

The present condition is the opposite of that then existing, for now industry is co-extensive with civilization, and commerce is almost universal, so that there is hardly anywhere a community without trade, or beyond the influence of the world's commerce. This condition of industry and trade necessitates incessant settlement of balances between trade centres, and these balances are very large in amount—so that gold now derives its equability of value from its superior portability because transportation facilities are so universal and so cheap that the slightest elevation of value at one point sets in motion currents of supply from many other points, and the effect is the preservation of the world's stock of gold at very nearly the same value everywhere.

The natural laws that control the currents of the air, and the formation and condensation of clouds, are not more constant than are the natural laws that control the currents of commerce, and the distribution of capital.* It is natural law alone that has gradually made gold the prime standard of value. Thus it came about that Great Britain was the first nation to adopt the single gold standard (1816), while for a long time afterward other nations did very well without it. The principal countries of Continental Europe were commercially isolated by the protective system, and their bi-metallic currencies supplied not only the needs of domestic circulation, but gold for trade with gold countries, and silver for trade with the South and East.

Before the advent of ocean steamers the United States were geographically isolated; hence here, too, there was for a time a bi-metallic circulation; for we used gold to settle Canadian and European balances and silver to settle balances arising in the trade with Central and South America and the West Indies. The debasing of the gold standard in 1834 drove our silver coins abroad, and from that time we were practically on a gold basis until 1860; but to-day commerce has brought all nations into one monetary community, and forces upon all, in "the nature of things," the use of one and the same standard of value. Silver now suffices as a standard of value in Mexico, Central and South America, and Asia, because these countries are still in a comparatively primitive state of industrial development.

At the beginning of the nineteenth century Great Britain was by far the foremost commercial nation of the world, and there industry was more active and diversified, labor was better compensated and consumption more extended than anywhere else; hence it is in accordance with the principles stated above that Great Britain should have early adopted the single gold standard.

Next to Great Britain the United States became, early in the century, the country of greatest and most diversified industrial and commercial activity, and consequently, in 1834, this country adopted in fact, though Congress did not establish by law, the single gold standard.

Up to 1834, gold coins could not circulate in the United States, and the country was practically on the silver basis. After 1834, silver dollars could no longer circulate, and the country had only the gold standard up to the suspension of specie payment at the outbreak of the Civil War—a period of nearly twenty-eight years—during which the United States gained more in industrial development, commercial extension, population, and a generally diffused prosperity of the people than in all their previous existence.

The same inevitable law that imposed the gold standard on Great Britain in 1816, that maintained it in this country from 1834 to 1862, and that impelled Bismarck to try to establish it the moment Germany became an Empire, would have been at work among us driving us by the scourges of industrial depression and disorder toward our proper destiny as the controlling gold standard country of the world. We know what the country has gained under the gold standard since 1879.

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* The efforts now being made to preserve the monetary use of silver in international trade are on a level with the pranks of Dyrenforth, and are destined to a like failure.

No one can compute what we might have lost if we had been during the same period on the monetary plane of India, Mexico, and China, with all industrial Europe raised to the higher level of the gold standard, and kept there by the weight of our silver circulation bearing down the other end of the lever.

Gold mono-metallism is the unavoidable destiny of this country; the sooner we recognize this and fix it in our laws, the sooner will we reap the fruits; the longer we defer the recognition, the more we impede and postpone its establishment by law—the longer will our industries be hampered and all our business deranged by financial unrest and commercial apprehension. Should we unfortunately let go the single gold standard, there will be nothing to take hold of but silver mono-metallism; for bi-metallism for us is a snare and a delusion.

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